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September 17, 1945

From a secret and reliable source we have received the following information:

In our latest interview with a leader of the Symarchist Union of Mexico, he gave us permission to quote the ecoperative answer given him by President Avila Comacho. Despite the anti-Synarchist propaganda by leftist circles, the President of Mexico has constantly defended the democratic rights of free speech and free organization. When leftist deputies first advocated forbidding the establishment of Symarchist agricultural colonies in lower California and later advocated the prohibition of Symarchist meetings at which, as hap-pened recently at Leon, as many as 100,000 people assemble, the president invariably answered. They are Maxicans and have the right to be protected by the gomment. Recently the president went a step further and assured the Synarchist leader that, as the Synarchist sevement had proved to have respect for the less, he was of the opinion that it should be helped by the government in its efforts to better the social conditions of the agricultural worker. The cocasion for this statement was the expose made by him of the situation of the Symarchist colonists of lower California who cannot, with their limited private means, buy essential farm tools nor construct the roads necessary to raise the living standards of this region. The Synarchist leader now has, after the assurances given by the president, solid hope that the Credit Unions will not refuse the Symarchists the loans normally conceded to socio-economic Erganisations which are considered a sound moral risk. 5)

The development of Synarchims has now reached a turning point. The little group founded on May 23, 1937, in Leon, Ouanajuato, by three lawyers, Manuel Jermeno, Jose Trueba Olivares, Salvador Abascal, and a farmer, Jose Antonio Urquisa, has grown to a membership of 700,000 Mexicans, mostly Indians of the poorer class. Up to that time the peons, desititute laborers, had not been considered by professional politicians a force worth organising, and Cardenas' experiments in collectivism did not succeed in raising their living standards, The Synarchist leaders, preaching Christian social order, have won the hearts of the forlorn field-workers and have instilled in them a great hope which can no longer be supercessed. Sofia Del Valle, founder of the Instituto de Oultura Funisism, who is well known in the United States (S)

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through her mamerous lectures, expressed the basic results of Symarchism in a striking observation. "I have seen", she said, "on the faces of those peons I visited, the change of soul realised by Symarchism, the new dignity and social conscience awakened by the movement".

During these last years, hundreds of small forgotten vil-lages have been visited by the numbers of the Synarchist Union. Assembled in private home, the peons have listened to the analysis made by members of their own class of the unbearable situation of neglect in which they live. Their hearts have responded to the conclusion: "Their own inertia and lack of social conscience is the primary source of their troubles; they must wake up, work hard, and organise their forces to become a constructive influence in the new Mexico." The Synarchist Union accepts as members only men and women of good moral and Christian lives, The first undertaking of Symarchism has been to raise moral standards, to awaken among Mexico's poor the conviction that they must live up to their old and undying Catholic traditions; In fact, in the villages where Symarchism has been adopted, drunkenness and lasiness are fast disappearing. The leading men of these villages where Symarchism has been adopted, have assumed their responsibilities, educating their brethren at numerous meetings, distributing the paper "El Sinarquista" and "Orden", arousing enthusiaem through vivid demonstrations under the Synarchist banner. In the beginning there was sharp opposition by leftist officials of the Tejidos (collectivist farms), by representatives of the official government part: (Partido de la Revolucion Mejicana, PRM) and sometimes bloody repression by the "Reservas Agrarias" (Armed groups formerly organised against the rich landed proprietors and now directed against the Synarchists.) One of the founders of Synarchiem, Urquisa, was killed by them, and about 720 others have also fallen, martyre to the cause.

Now, says the Symarchist chief, the assaults of the "Pistoleros" have diminished considerably, and in many regions the official chiefs and members of the revolutionary party have secretly become Symarchists because they homestly believe this movement is the movement of the people; (S)

Gradually Symarchies is beginning to define its aims and methods more clearly. A movement of the simple and uncultured people could not be expected from the beginning to achieve great elarity in its idealogy and organisation. It may be said, that although the founders and leaders were derois in their dedication to the cause of the people, and exceptional in their perseverance, they have not always been intellectually solid and practical. They have refused to oppose evil with arms and have maintained their altofness from political elections. But their language has

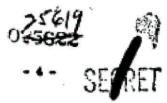
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often been violent and they have sometimes confused the cause of democracy with the Mexican misuse of democracy by fraudulent political leaders. This confusion is being cleared up by a more distinct definition of Synarchism am a socio-economic movement which aims at the organization by the people themselves, of those occuperative, financial and syndical constitutions which can save them from their age-old misery. This concept is sound, for all planning and state-intervention is without avail, if individuals do not learn to exert the proper efforts for a betterment of their conditions.

The organisation is also finally taking more definite shape. In the times of "pistolerism" and terror, it was understandable that the leaders did not wish by publicising their names, to expose themselves to the fate which befell one of the founders, Jose Antonio Urquisa. Political leaders of democracy, as well as the church, rightly manifest their lack of confidence in "secret committees" which can elude all attempts at checking and can, with the best intentions, develope authoritarian methods. The actual president now insists that the directing committees openly assume its responsibilities and that the names of members be published regularly in the Symarchist paper. The directing committee consults its adviced an special questions, and submits matters of faith and morals to a theologian. The regional and look committees are also being reorganised along a more demo-cratic pattern. Formerly the nomination of leaders was a kind of family affair. A representative of the movement who founded a section presented to the stating a list of candidates for the local committee, which was publicly discussed and which usually met with unanimous approxal. Fow that the numbership has developed, a constitution is being prepared which will determine the manner in which local, regional and central authorities shall be appointed. A school is also being formed for training field secretaries in the proper doctinal approach and methods of action.

Symerchism is a lay-movement, which inevitably proceeds in temporal matters by trial and error, and does not involve any responsibility of the Church. The Church authorities who are always realistic have expressed meither approxal or disapproval. Many leading Catholics in Mexico have scartines feared that certain propagands themes and methods of action might prove to be impresent. None have doubted, however, the profoundly Christian spirit and practice of the leaders and members. One fact is clear: meither Church nor State can save the people, if the people (5)



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are not awakened to the job of saving themselves. Synarchism has won the hearts of the poorest of the Mexican proletariat, has restored their faith in themselves, in their own dignity and brotherhood, basing this transformation on the eternal truths of the Fatherhood of God. This transformation is the basis of the "good society" and instead of perpetuating the current Mexican scepticism about the practicability of honest working democracy, the Synarchist movement is bound to further the revival and development of a better democracy, founded on better education, on the growth in the Mexican masses of human dignity and regenerative faith, (6)

Confidential Information

In a private audience with the informant, a leading scolesissio showed some fear that Synarchist leaders might be violent and imprudent in their propaganda against the leaders of the Partido Revolutionario Mexicano (PEM). The Church leader admits, as all objective Mexicans do, that professional politicians make fortunes by graft and falsify the results of elections. He, however, pursues a policy of occupation with the government and obtains de facto increasing telerance for religion. He keeps Catholic Action (the comperation of the laity in the spectclate of the hierarchy) within the strictest limits of spiritual action, forbidding the slightest interference in political matters. (C.)

a former head of Gatholic Acting, has recently delivered prodemocratic and pro-Allied discourses.

thurch leader had forbidden him even to mention the Symarchist movement in his dispatches to as to avoid any connection between it and the Church.

A former president of the Catholic Action of Men revealed that in the small villages many young men who should have been leaders in Catholic Action formed the Symarchist movement. He stressed that Symarchists are fervent Catholics.

A priest, ecolosisatical assistant of Catholic Lotion, does not like the methods of Symarchism. He showed how it is difficult to organise the youth in Catholic Action because of the political difficulties in Mexico. He revealed that an order from the Vations has forbidden bishops and priests to take any

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Foreign Nationalities Branch Number M-122

Office of Strategic Services 28 December 1943

Event:

Speakers:

MELTING OF THE COMITE DE UNIFICACION

HISPANA

ValVilla, Oscar Antonio de Succar,

Ernestina Conzalez, Josus Mobles Toyo, Soto Walez, Clifford Cavoy

Place:

Club Porero Espanol, Hew York City

Date:

19 Dicember 1943

Attendance:

75-100

The newly formed Vunta of Liberation in Hexico Cit came in for biting attack at a meeting of the Comite de Unification Hispana hold at the Club Obrero Espanol in New York City, 19 December 1943. All but McAvoy spoke in Spanish.

Don Antonio de la Villa, former Spanish Republican consul in Puorto Rico, was the first of several speakers to discuss "Spain and its Problems." He complimented the Comits for asking him to speak without inquiring into his tarby affiliation; they know him as an auti-Fascist and very therefore willing to work with him. His brief speech attacked the Junta de Liberacion for rufusal to accept representatives of all polivical partius.

The speech which evoked from the audience enthusiastic expression of hostility to the Mexico City Junta was delivered by Oscar Antonio de Succest, of the Spanish Section of the JAN 25 1944.

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De Succar wanted to know ""he are these people who make up the membership of the Junta de Liberacion?" "ell, there were some friends of Indalecto Prieto and some friends of Martinez Barrio. Then there were some people for iccion Cataluna, and one or two others.

The first announcement of the Junta, said de Succar, had made it appear that it stood for the one thing all Spanish Republicans had been working toward — unity. But events had belied the first impression. The Junta could not represent the Spanish people; it refused to accept all anti-Pascist parties and failed to give representation to the majority of Spanish thought today. The people in Mexico City had set themselves up as a Committee without any authority shatspover. The CMT, the UCT, a large part of the Socialists, and the Communists had not been included. Who then was in the Junta?

Pricto did not represent the Spanish people, do
Succar went on to say. Ferhaps it could be said he
represented two or three, he was so fat; perhaps a few
sycophants. Martinez Barrio was charming, well-mannered.
One could spend a delightful half-hour with him. But
"he will have to give proof that he will not again
betray Spain as M. did in 1933 when he delivered Spain
That the hands of the procediments:"

Farthers which fought against Franco. "E must have unity, he repeated, unity of all anti-Falangists.

Do Succar recalled that the Committee had aspirations to become a government-in-exile. How could it hope for that when the true government of the Spanish Republic had never died? "The Spanish Government is still alive in the person of Dr. Negrin." If we did not accept the continuity of the Spanish Republic with its Prime Einister Negrin and everything that the Constitution implied, then we denied all that the Spanish Republic and its Constitution stood for; unity must be based on legality. The Committee in Bexico City was not based on legality, and its members were simply appearers. In order to please certain elements in Great Britain and the Department of State, it had refused to accept Communists, Socialists, and others, the very elements which represented the real Spain of today, de Succar charged.

Do Succer ended by stating his conviction that no decision could be made on post-war Spain which had not been taken up with the Soviet Union. Reservelt and Churchill had gone all the way to Teheran to talk to Stalin; how could Spanish Republicans overlook Stalin when planning the Spain of the future?

Another speaker, Ernesting Jonzalez, reiterated the attacks on the Junta, and urged Spanish anti-Paseists to take the "new French Popular Front" as a model.

During these war years, she declared, the French had come to accept all anti-Paseists irrespective of their political coloration.

The last speaker on Spain and its problems, Jesus Robles Toyo, Chancellor of the Hexican Consulate at New York, spoke for the Mexican Consul General, Ricardo G. Hill, who could not attend. Toyo called for unity of all Spanish anti-Fascists to get rid of France and the Falange. He wished to put forward one concrete proposal: that the Club Obrero and the Comite de Unificacion Hispana approach all Spanish organizations in New York City with a view to achieving as much unity as possible.

Er. Soto Volez appeared on the program to make a special plea for the independence of Puerto Rico. Clifford McAvoy, legislative attorney for the CTO, attacked the United States Congress as reactionary and urged the audience to write its Congressmen in support of subsidy legislation.

During the meeting announcement was made that
the Archbishop of Canterbury's book The Secret of
Soviet Power was available, and several people circulated through the audience offering it for sale. A
mimeographed handbill, headed "La Conferencia de
Teheran," which attacked "reactionary" politicians
in the United States, was circulated by the Club
Eugenio Ma, do Hostos -- Communist Party, Whited States.
Copies of Espana Popular, a Mexico City paper, were
also sold at the meeting.

According to the conservative New York daily La Prensa of 24 December the assembly agreed to send a telegram to Indalecie Priote and Martinez Barrie, expressing satisfaction for the degree of understanding which had been brought about among the Republican factions, but registering disapproval of the narrow frame within which the Junta had been conceived. A telegram of support was sent to the Spanish workers and syndicalist organizations in Maxico.

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OFFICE OF STRATEGIC SERVICES
Research and Analysis Branch
R & A No. 2246

CRISIS IN THE MEXICAN SINAR-JUISTA MOVEMENT

DESCRIPTION

A history of events in the Sinarquista movement of Wexico since January 1944, and an analysis of the extent to which internal schiems and government restriction have affected its atrength.

19 September 1944

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SUMMARY

In the first months of 1944 the Sinarquistas, Mexico's mans right-wing movement, appeared to be gaining ground rapidly. Then between April and July, a series of events halted the growth of the movement and plunged it into serious difficulties:

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In April, an attempt was made to assassinate Prosident Avila Camacho by a young army lieutenant known to have had Sinarquista affiliations. In May Salvador Abascal, who had been Supreme Leader until Pearl Harbor made advisable the substitution of a less openly anti-United States figure, publicly broke with the present Supreme Leader, Manuel Torres Bueno, over questions of policy; and, with his followers, left the organization. This dispute represented the first break in the rigidly disciplined Sinarquista ranks.

On 22 June a series of violent articles in the Sinarquista weekly organ inciting the army and the public to revolt, finally brought the wrath of the administration upon the movement. The author of the articles and the editor of the paper were indicted, Sinarquista public meetings banned, publication of the newspaper was forbidden, and distribution of propaganda severely restricted.

Already weakened by the May schism and popular anner at the April attempt on the President's life, the movement undoubtedly suffered a severe blow, although it has been able to circumvent the restrictions to

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some extent and the government has not proceeded with the presecution of the men under indictment. The <u>Sinarquistas</u> hope shortly to secure the lifting of all restrictions, and, should the government not take further measures against them, probably can rapidly regain their former strength.

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COMPTI NTIAL

Crisis in the Sinarquista Fovement

Sinarquiemo during the Pirst Konths of 1944.

During the opening months of 1944 the Sinarquista movement appeared stronger than at any previous time in its seven years of existence as a public organization. Pew serious observers would have predicted that the Union Nacional Sinarquista (UNS) would shortly suffer its first serious schism and that the Hexican Government, after years of patiently avoiding a showdown, would take its first energetic measures against the movement.

Nithin the Mexican areas where Sinarquismo had taken firs hold-notably the areas around Mexico City; the rich agricultural region of Guanajuato, Querétaro, and Jalisco; and the cities along the United States-Mexican border--the UNS continued to gain adherents at a rapid pace, and claims of membership, previously ranging toward the half-aillion mark, now began to move beyond the million mark. For the first time, the Mational Committee made efforts to implement the Sinarquista paper organisation in the state of Chiapas by sending organizers from Mexico City, who began an extensive campaign of propaganda and organization.

3. See Excelsion, Pexico City, 22 Pay 1944.

For a history of the Sinarquista movement up to May 1943, and an analysis of its character and principles, see R&A 843, The Sinarquista Novement in Mexico.

In an interview with foreign correspondents at the end of 1943,
 Torres Bueno claimed a membership of 900,000; El Sinarquista,
 23 December 1943. See also Edward Midllin, Jr., "A Note on Eexican Sinarquismo," The Component, New York, 9 June 1944.

Although the two official Sinarquista colonies in Lower California and Sonora were obvious failures after two years of continuing expenditure of money on the part of the Mational Committee, and María Auxiliadora in Lower California was a particularly serious drain upon the resources of the Mational Committee, the fervor of Sinarquistas for establishing settlements in the north led a group of Sinarquista families from Michoacán to establish a colony in Sinalos near Culiacán. The new colony was not an official one, but like the successful settlement near Matamoros, represented a local project of Sinarquistas.

During these months the UNS made special efforts to recruit adherents in non-rural spheres of Mexican life, and thus vary its previous concentration upon the peasants. The UNS opened an elaborate campaign aimed at securing converts among the young conscripts serving a year in the army. In many regions, the Sinarquistas were able to secure permission for their speakers to address the conscripts after drill and expound the ideas of Sinarquismo to them. Simultaneously the Sinarquista press carried on a violent campaing demanding that chaplains be provided for the army (since religion is legally a completely private affair in Nexico, chaplains are not attached to the army) and continued previous Sinarquista opposition to the sending

^{5.} Novedades, Texico City, 22 tay 1944.



[.] RAA 843, pp. 92-99

of a Mexican expeditionary force overseas to implement the Mexican declaration of war upon the Axis. Although the success of Sinarquista penetration of the army is difficult to gauge, American travellers returning to the United States generally agreed that the UNE was making considerable headway.

Parallel with these efforts to gain army support, the UNS continued the attempt to infiltrate the labor unions and gain labor support, as part of a program announced in April 1942 by Supreme Leader Manuel Torres Bueno. This campaign also appears to have achieved a considerable measure of success, especially in cities like Querétare located in areas of strong peasant and landowner support for Sinarquismo.

During this period the UNS did not stress as openly as in late 1943 its dislike for the United States. Anti-American agitation took the form of an intensification of the anti-Protestant campaign which was soon to lead to bloody attacks upon Protestant communities in rural areas. In effect, this campaign was anti-American, since Protestantism and the United States are virtually synonymous in Latin America. 9

However, the stress upon anti-Protestantism had the two-fold advantage

El Sinarquista, 20 April 1944; El Sinarquista, 13 January 1944;
 El Sinarquista, 6 January 1944.

^{7.} See RAA 843, appendix III P.

⁸⁻El Popular, 4 July 1944.

^{9.} Vide Infra.

of attacking the United States indirectly without forfeiting support

from those Catholic groups in the United States who have been inclined
to view the UNS with favor as a movement unaffiliated with Axis fascism
and fighting for the restoration of the Church position in Mexico.

months continued in an uneasy state of friction, with the government holding to its previous policy of ignoring the organization so long as it refrained from too overt a move against the existing order. The only events which perhaps foreshadowed developing difficulties was the attempt on the life of President Avila Camacho on 10 April by Lieutenant Antonio (c. As/Lama) Rojas, : young artillery officer assigned to the presidential guard.

The president was unharmed by the bullet, and the would-be assassin, subsequently shot while attempting to escape, soon died in a hospital. Although the administration, reluctant to open an investigation which might disturb the surface unity of Mexican political groups behind the war, stressed its belief that De la Lama Rojas could not be connected with any political group and dismissed the affair as "an isolated act of a fanatic". O investigation by private groups soon uncovered close close links between the lieutenant and the UNG. In December 1941 De la Lama Rojas was one of the bodyguard of Salvador Abascal, then national leader of the UNS, in the Sinarquista mass meeting at Guadalajara.

^{10.} Novedados, 10 and 11 April 1944; El Populer, "exico City, 12 April 1944; Excelsior, 11 and 13 April 1944.

Immediately after the attempt on the president's life and the death of De la Lama Rojas, according to these revelations, more than 40 Sinarquista chiefs and other militant members of the movement hold a secret meeting on 14 April at Norelos 74 in Mexico City, the head-quarters of the UNS, in honor of the dead man. The members present at the meeting called for vengeance for the death of De la lama and declared the lieutenant a Sinarquista martyr. The Sinarquistas hothy demied that such meeting had taken place. 12

Sociedad Amigos del Soldado (SAS), a group estensibly encouraging recreational and social activities among the armed forces, but notually promoting political and religious indoctrination. De la Lera had been an active member of the SAS, 13 and the group was strongly suspected of acting on behalf of the Sinarquistas. The government also expelled eight cadets of the National Ellitary Academy associated with De la Lema in the SAS. Having taken those actions, the administration preferred to let the affair be forgotten.

^{11.} Tiempo, Mexico City, 21 April 1944

^{12.} El Popular, 29 April 1944; El Sinarquista, 27 April 1941.

^{13.} El Popular, 23 April 1944.

^{14.} Novedades, 14 April 1944.

CONFIGENTIAL

II. The May Schiem.

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A. The Withdrawai of Abascal and His Pollowers.

organization and that, despite the rigid requirements of obedience to the national leader, serious differences had arisen among the upper ranks came at the end of April, shortly after the De la Lama affair, when the Mitional Committee removed Salvador Abascal from his posts as member of the Mational Committee and leader of the Maria Auxiliadora Colony in Lower California. The announcement did not make it clear whether Abascal had been expelled from the UNS. Although Abascal refused at first to make a public statement, a handbill issued by his followers attacked the present Supreme Leader, Manuel Torres Bueno, and his assistants as "traitors to Sinarquismo", and gave evidence to people outside of the UNS that the removal of Abascal involved more than an ordinary disciplinary action.

In the middle of May, Abascal finally gave his version of the story, explaining that he had kept silent previously because of a gentlemen's agreement with Torres Bueno, but because of the spreading of slanderous rumors, no longer considered himself bound by the promise.

Abascal completely denied stories that his mismanagement of the Maria Auxiliadors Colony was the cause of his removal, and blamed Torres Bueno

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^{15.} Tiempo, 19 May 1944.

^{16.} In an exclusive interview published in Movedades, 17 May 1944.
For a complete translation of this article, see the appendix to this report.

for deliberately withholding necessary supplies and forcing the failure of the colony. He insisted that he had voluntarily withdrawn from the UNS because of his disagreement with Torres Bueno's policies, that he could not accept the whitewashing of the character of Benito Juaces, father of the anti-clerical laws of the Reform, even though made at the insistence of the president; and that he regarded as shameful a statement of forces Bueno placing Protestantism on the same plane with tatholicism. Abascal admitted that he had thought of deposing Torre: Bueno and taking leadership of the UNS again but had found the present leader's control too firm to be shaken.

In the interview, Abascal left no doubt that a division of consideralle seriousness had taken place in the UNS over the question of futur, policy. The Torres Bueno leadership, according to Abascal, plained to convert the movement into a formal political party and banked upon an eventual United States policy of opposition to Russia, involving American support for all right-wing movements in Latin American

> ...we are told that the political party which Sinarquismo is going to become will oppose any official government party planning to control elections. It is very easy to say that one is going to oppose the PRM /the present government party/. What is difficult is to stand up against guns in order to insist upon an honest election.

Once Sinarquismo becomes a political party, it is only going to play the game of the well-known 'democracy' and the Revolution. And the people, as always, will be played for suckers.

People should withdraw from this type of Sinarquismo, which is now only one more kind of fraud....

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It is said that Sinarquismo is ready to fight against Communism anywhere. This is a demagogic device of Lic. forres to keep the poor deceived people under his control. It is also a fantasy, which perhaps Torres and his gang believe. They believe or pretend to believe that when the break between the United States and Russia comes, our cousins /the United States/ will demand of the Mexican government that It destroy the Left, and that therefore the president will be obliged to call upon Sinarquismo. Then Sinarquistas will take up arms if necessary ... What is really necessary is that Sinarquismo be ready to overthrow the Revolution, which was destroying Mexico a century before the word Communism was heard in our country. The Revolution will continue destroying Morico even though Communism is annihilated in Asia and Europe and the entire world

With Abascal, a number of the founding members and figures of the Mational Committee of the UNS, including the Truebe Olivares trothers, Ruben Mendoza, Rafael Deveze, and Silviana Castellanes, also withdrew from the organization.

After giving this interview, Abascal proceeded to write a series of articles for Massan, a weekly with strong right-wing Catholic tendencies, explaining the history of the UNS, his role in it, and emplifying his version of his dispute with Torres Bueno. Upon the publication of these articles, Abascal retired to private life in the Mexico City suburb of Tacubeya, where his parents-in-law furnished him enough capital to start a shoe repair shop. 17

^{17.} Massama, Mexico City, (a photostatic copy of article without date).
probably late May or early June.



B. The Reply of Torres Bueno and His Faction

Although pressed by reporters to reply to the charges made by Salvador Abascal, Manuel Torres Bueno refused to grant an interview to the press. 16 However, four days later on 21 May, speaking before the annual mass meeting of thousands of Sinarquistas commenorating the foundation of the UNS, the incumbent national leader gave the official reply to Abascal. He declared that Abascal had no reason to attack the present directors of the destinies of the UNS, apparently hinting that Abascal's charges of personal slander by Torres were false; that the Sinarquistas would not enter into prolonged arguments on the affair since doing so would merely profit the known enemies of the organization; and that "just as we have forgiven the enemies who have persecuted and shot down our comrades, so we should forgive our mistaken friends as Christian charity demands".

In regard to the charge that the UNS would declare itself a political party, Torres entered a complete negative in his speech.

"We cannot be a political party because there is no democracy in Mexico. Our encaies want us to enter the electoral contests in order to defeat us by means of frauds and travesties as has always happened.

But Sinarquismo will not play the game of the Revolutionaries."

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These declarations of policy were reinforced within a week by a further statement of the UNS denouncing the Party of the Mexican

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^{18.} Movedades, 18 May 1944.

^{19.} Novedades, 23 May 1944.

Revolution (PRM), the official government party. "As long as the PRM follows the Maxi methods employed in Germany, the Sinarquistas will not participate directly in Mexican politics....Everyone in Mexico, except possibly the highest authorities, knows that the PRM disregards suffrage and violates all democratic forms."

National Leader of the Union Nacional Sinarquista, attempted to quiet all further discussion of the withdrawal of Abascal and his friends. Instructions were sent to all members of the UNS warning them that a vicious press campaign had been launched against the movement because of a "elight incident which has now been settled", and ordering them not to spread any information which they might glean about the affair in other newspapers. The members of the movement were exhorted to believe only the version published in El Sinarquista, the official organ of the UNS.

C. The Issue at Stake in the Schien.

Judged from Abascal's declarations and the discussion in
the Mexico City press, the controversy within the UNS involved a dispute over future policy, with differences of opinion so great and so
irreconcilable that the group led by Salvador Abascal withdrew from
the organization. More perhaps than any other Sinarquista leader,
Salvador Abascal had been distinguished for his open anti-United States

^{21.} Novedades, 29 May 1944.



^{20,} Excélsior, 29 May 1944.

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sentiment and his frank partiality for the Axis. During his service as Supreme National Sinarquista Leader one of the leading Nazi agents in Nexico, Anton von Trotter, served as his personal secretary under the name of Antonio Sam López. Toward the end of April, when this fact became established, the early Nazi affiliations of the UNS were further confirmed by publication of photostatic copies of a court petition of September 1936 in which Torres Bueno acted as attorney for the Nazi sympathizer and perhaps agent, Oskar Hellmuth Schreiter, reputed to have aided in the foundation of the movement.

Abascal and his group, despite the obviously approaching defeat of the Axis in the Eastern Hemisphere, apparently opposed any adjustment of <u>Sinarquista</u> policies to changing conditions. They preferred to maintain the doctrinaire position of an uncompromising and declared opposition to the United States, and to continue to fight the present Government of Mexico and work for the New Christian Order in the traditional <u>Sinarquista</u> manner, eschewing direct participation in politics and building up a tightly-knit organization for eventual overthrow of of the present order in Mexico.

Torres Bueno and his group, on the other hand, evidently realizing the certainty of a severe and perhaps final defeat for fascist systems in the Eastern Hemisphere, proposed to revise Sinarquista policies sufficiently to permit cultivation of groups in the United States

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^{22.} Tiempo, 21 April 1944.

^{23.} Catholic opinion in the United States appears to be divided on the subject of Sinarquismo; e.g., Father Coughlin's "Social Justice", "America", and the Brooklyn Tablet" have consistently been sympathetic to the movement, while "The Commonweal" has condemned it. (See issue of 9 June, 1944.)

favorable to them, hoping that at the conclusion of the present war, or even earlier, the United States would adopt a violently entiRussian policy and encourage the destruction of liberal and leftist groups in Mexico. The Sinarquistas, as the only right-wing movement in Mexico with mass support would then be called in to become the mainstay of a recriented Mexican Government.

opinion which is prepared to shift its tactics when necessary. It is doubtful that the quarrel between Abascal and Torres Bueno arises from any difference over ultimate aims, but rather concerns a dispute over immediate strategy. On the point of Protestantism, which particularly irritated Abascal, for example, Torres Bueno's full statement to his interviewers, after acknowledging that Protestantism could be considered as Christianity, continued: the Sinarquistas, "of course, consider the Apostolic Roman Catholic Church the enduring tree while the Protestant heresies are the rotten limbs destined eventually to fall off."

Just before Torres Sueno made his Léon speech, there was virtual unanimity among Mexico City writers, regardless of political persuasion, that he would announce the conversion of the USS into a political party. Mexico, which is usually well-informed on right-wing politics, in its 20 May issue declared that the official announcement would contain

^{24.} SP/2246/1.

three points: (1) Sinarquiano becomes a political party.

(2) Sinarquismo will fight openly against Communism wherever and however found. (3) Sinarquismo will resist with all its energies any attempt by an official party to impose its candidates. Torres Bueno, according to one version, went to León with a prepared speech, but at the last moment, because of the unwillingness of a large part of the UNS membership to back formal entrance into politics, he abandoned his text and made an impromptu denial that he planned any change in UNS policies. 26.

That the dispute entailed serious consequences for the UNS seems quite clear. In a rigidly authoritarian organization, the loss of a considerable part of the top leadership is likely to have far more effect upon the general membership than a quarrel in a looser and more flexible group. Torres Bueno and his group with their control of the organizational machinery were able to defeat Abascal but apparently were forced to reaffirm adherence to the traditional policies of the UNS. It is impossible to estimate, just how many of the rank-and-file of the movement may have withdrawn with Abascal. One report suggests that by the end of May there was a considerable drop in membership.

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^{25.} SF/2246/1.

^{26.} Allied Labor News, Mexico City, 31 May 1944.

^{27.} Allied Labor News, Hexico City, 31 Eay 1944.

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The León meeting was notable for the fact that it was the first such colebration which failed to attract a larger audience than the previous one, and that attendance fell off sharply. As against the 90,000 attendance claimed by the National Committee, other sources estimated the total audience present at under 50,000.

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^{28.} Excélsior, 25 May 1944 gives a PRM estimate of only 12,000 but other sources, based on the statements of eyewitnesses give nearly 50,000 as a more accurate estimate.

III. The Government in Motion.

A. The Rising Violence of the Sinarquists Campaign.

At the beginning of June, Mexico City observers were predicting that to maintain his hold upon the UNS membership, and to revive the enthusiasm and confidence lost through the withdrawal of Abascal and his friends, forres Bueno would have to unleash a more violent campaign of propagands and a-itation.29 A partial answer to this need was an intensification of the already violent agitation against Protestants and Protestant missionaries in lexico. The stepping up of this campaign coincided with enti-Protestent outrages which, unfortunately for the UNS, aroused hostile government and public opinion on the issue. On 21 Pay Sinarquistas led by the village priest, Father Hermelindo. Montealegre, attacked Protestant homes in the town of La Gloria, Veracrus, burning a number of dwellings and killing three children with clubs and machetes. 30 On 18 June a similar attack took place at Tiscotepec, Veracrus. 51 On 3 July peasants at Tuxtepec, Oaxaca, inflamed by anti-Protestant propagands, attacked the Protestants in their village, damaging a number of houses and wounding several Protestante. 52

^{29.} SF/2246/3.

^{50.} Tiempo, 16 June 1944.

^{31.} El Popular, 19 June 1944.

^{32.} El Popular, 4 July 1944.

On 10 July, after the victims of the Veracrus attacks aspeared in Mexico City to plead for federal protection, agents of the Federal Judiciary Police were sent to La Gloria and Tuxtepec to investigate and prosecute the people responsible for the outrages. These attacks, even though Sinarquista responsibility was clear only in the first case, forced the government to look with much deeper concern at anti-Protestant campaigns, and the sight of wounded victims of the Veracrus attacks in Mexico City aroused a good deal of public epinion, which, while hardly favorable to Protestantism, was not prepared to countenance such occurrences. The reaction to anti-Protestant outbreaks, furthermore, added to the still existing public indignation aroused by the attempted assassination of President Avila Camacho, produced an atmosphere of opinion distinctly hostile to any intensification of Sinarquista agitation. 34

At this time, the UNS chose to issue the most provocative antigovernment propaganda of its history. The 22 June issue of El Sinarquista
virtually issued a call for armed rebellion. One article, entitled
"Attention! General Strike!" called upon the army to rise and crush a
purported general strike: 36

^{33.} El Popular, 11 July 1944.

^{34.} SF/2246/1.

^{35.} The quotations from this issue of El Sinarquista are taken from the passages cited in the opinion of the Federal Attorney General's Office; an English translation of this is included in the Appendix.

^{36.} The story of a general strike had some basis in fact. The Hational Proletarian Federation (CPN), a small, extremist labor group led by expelled members of the Federation of Mexican Workers (CTN), had

The day of the great betrayal is approaching. It has been set for 5 July .-- Remomber it, soldiers of Mexico. 5 July .-- Soldier of Mexicol The Religion. Union, and the Independence of your brothers-the flag which you serve loyally--are to be wiped off the surface of our country and our consciences.... You will know the difference between your people and the traitors, between your flag and the red-black flag of strikes, between Mexico and Russia... And remember also that wherever you meet a Sinarquista, you are sure of finding a brother, a clean, patriotic Mexican, resolved like you to go to the place of greatest danger, and arrive at last at victory .--Mexican soldier, attention! Mexican soldier, arms readyl-The password and countersign are: LONG LIVE MEXICOL

Another article declared that the purpose of the general strike would be to install a Communist government in Mexico:

Mexico will be at the mercy of the Communists on 5 July if the government of Avila Camacho holds fast to its attitude of stolid defeat before the challenging insolence of the labor bosses.—Upon the declaration of the GENERAL STRIKE, the Soviet Embassy will become the National Palace of Mexico, and from there measures will be dictated for converting our country into Soviet Republic No. 17 and the headquarters for the Bolshevisation of America.

For the first time El Sinarquista also issued a direct, personal, and violent indictment of President Avila Camacho, in a country where the person of the president is treated with far more respect than is

called a general strike. This strike, however, was denounced by the CTM and all other labor groups. It thus had no chance of involving any considerable number of people. In view of the fact that the Sinarquistas enjoy some prestige within the CPN, strong suspicions have been voiced that the UNS had a part in the call for a general strike. SP/2246/2.

customary in United States journalistic practice, and criticism of the chief executive is therefore normally handled by indirection. In an editorial, "This is No Government", El Sinarquista flatly charged Avila Camacho with utter incapacity to govern and with allowing the Reds to throw the country into complete chaos:

Can the administration of Sr. Avila Camacho be called a government? He himself does not believe it when he fears to give orders like a man with authority; when the first cry of opposition or threat causes him to show his heels and flee the field.

Can a regime be called a government when it is presided over by a man who prefers to abandon his people to the marcy of vultures in order not to annoy the vultures?

B. The Government's Measures.

The reaction of the Avila Camacho administration to the Sinarquista appeal to the army and attack on the president was immediate, and in view of the previous leniency of the government in dealing with Sinarquista agitation, violent. President Avila Camacho at once instructed the Federal Attorney General, José Aguilar y Maya, to issue orders forbidding Sinarquista meetings in the eight key states of Querétaro, San Luis Potosi, Tamaulipas, Zacatecas, Aguascalientes, Guanajuato, Jalisco, and Michoacán—the principal centers of Sinarquista strongth among the

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pussantry. Sinarquists national headquarters were raided by the police 38 and the editor of El Sinarquista, Feliciano Itanrique, was brought into the Attorney General's office for questioning. Manrique readily declared that the offensive articles had been written by Juan Ignacio Padilla, one of the members of the Mational Committee, and Padilla, when questioned, as readily admitted that he was the author. Both Lanrique and Padilla defended the articles by stating that "grammatically the expressions of the paper may be offensive, but they are not morally or legally so". 39

As a result of the investigation by the Attorney General's office,

Juan Ignacio Padilla and the other Sinarquistas connected with the

publication of the articles were indicted on 5 July 1944 in a long

opinion signed by the Federal Attorney General. 40 The opinion is

notable for a careful examination of Sinarquista philosophy, tracing

its origins in Falance teachings and analysing the function of the

movement in Mexican life. The analysis closes with a surmary paragraphs

To sum up: Sinarquiemo for seven years has been carrying out intensive political propaganda among our peasantry, through written and oral media. It has spread the ideas, programs, and norms of action of a foreign government—the Spanish—which in its turn

^{37.} Excélsior, 23 June 1944.

^{38.} Allied Labor News, Mexico City, 50 June 1944.

^{39.} Opinion of Attorney General, Mexico City, 5 July 1944.

^{40,} An English translation of the opinion is included in the appendix.

derives them from Italian fascism, from Palangismo, from 'Jonsismo', and from the so-called 'traditionalism' of Yazques Holla. It has impeded the functioning of our institutions and has propagated disrespect among Mexican nationals for the discharge of their civic duties. Finally, Sinarquismo has disturbed the public peace by a thinly disguised appeal to the Army and the people of Mexico to rebel against the Government of the Republic.

As a result of the Attorney General's opinion, the ban on Sinarquista meetings was extended to the entire country and the issuance of Sinarquista publications was prohibited. At this time the government also took measures against Sinarquistas operating within labor unions and inciting the members to disregard the labor pledge of arbitration made when Mexico entered the war. On 29 June 1944 a strike called in the Hercules" and Mometeria Queretana" textile factories in Querétare, after menths of agitation by Sinarquistas within the local unions, was declared illegal by the State Arbitration Board and work resumed with the approval of the Mexican Federation of Labor (CTM). At In Santa Cruz, Tlaxcala, where a twenty-two menths' old strike had been settled but renewed under Sinarquista agitation, the government took over the property and expelled all Sinarquistas working in the factory.

^{41.} Cl Popular, 6 July 1944.

^{42.} El Popular, 4 July 1964. See also El Macional, Mexico City, 19 August 1944, for further difficulties with Sinarquistas in the factory.

^{43.} Excélsior. 9 July 1944.

C. The Public Reaction.

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In the prevailing state of Mexican public opinion, the government's measures against the Sinarquista organization met with immediate approval. Excélsior, which had been generally favorable to the UNS in the past, voiced the general opinion in an editorial on 24 June:

The time could not have been worse chosen [for the Sinarquistas to have made these moves]. Mexico is at war and is suffering serious effects from that in various phases of its life. A series of laws have been issued to safeguard internal peace which is indispensable when a country finds itself involved in an external conflict. And in this respect, let us recognize that President Avila Comacho has proceeded with tact and caution when in other countries, including democratic ones like Great Britain, much more severe measures are being applied under the primary need to preserve the state and the nation.

It was this need beyond any doubt that led to the application of the emergency laws to the case of the Sinarquistas. All the more so since the measure on which we are commenting only forbids gatherings, meetings, and other activities which tend to disturb the necessary internal peace of Mexico, and the harmonious progress of national work and unity. Anyone, without the blindness of passion, reading the last number of the Sinarquista newspaper, which openly calls upon the Army to mutiny against the highest officials, must admit the justice of what the government has done on this point.

An early repercussion of the articles and the government actions
was a statement issued by Manuel Gones Morin, chief of the Partido
Acción Macional (PAN), which has long had close relations as well as



identity of aims with the UNS, 44 declaring that the PAN had "completely broken with Sinarquismo." This declaration of separation incidentally was the first public admission by either group that there had ever been any connection between them. Gomes Forin Purther explained that Sinarquista support given to Aquiles Slorduy, the PAN cardidate for the governorship of Aquascalientes, was the independent action of ordinary citizens. 45 It seems probable that Gomes Morin, sensing the popular temper, hastened; a dissociate himself and his party from the UNS lest the PAN be brought under the popular condemnation accorded the Sirarquistas.

An international note was added to the Sinarquista contriversy why n Salvador Abascul, from his shoe-making retirement in Taculaya, whenged that under its present leadership Sinarquismo was mana; ed to a considerable extent by the United States Embassy. Embassador Research at once replied that, "Sinarquistas are considered fascists are we will not help those we are fighting against." The Amiassaror's attituent appears to have settled this one phase of discussion about Sinarquistas.

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^{44.} See RAA 843, pp. 143-144.

^{45.} Allied Labor Henrs, Mexico City, 36 June 1944.

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IV. Events since July

A. Sinarquista Resistance to the Attorney-General's Orders.

1. Inability to Resist Openly

Weakened as it was by the Abascal schism in May and unableto count upon public support in the face of the general condemnation of the 22 June articles, the leadership of the Union Macional Sinarquists was forced to submit to the government orders severely circumscribing Sinarquista activities. The Mational Committee explained publicly that the articles had been misinterpreted; that they were not meant as a call for a rebellion by the army but merely to call attention to the Communist menace in Mexico. 47 According to a statement by Torres Bueno on 14 July in the Second Criminal Court of the Federal District, where he had come to answer charges brought by Deputy Salvador Ochon Renteria, president of the Congressional Committee for the Defense of the Revolution, the organisation had no subversive purposes and its leaders stood ready to enswer any charges made. The Sinarquista national leader also stated that he had had an interview with President Avila Camacho, presumably to protest against the restrictions, in which

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^{47. 37/2246/3.}

the President assured him that the order prohibiting Sinarquista meetings anywhere in the country did not necessarily mean that the government would actively carry on a campaign to suppress the movement. 48

The Sinarquista leadership also sent formal appeals to the President and the Attorney-General, protesting against the orders. The letter to President Avila Camacho stated that the UHS was faithfully obeying the order to discontinue propaganda meetings throughout the country, even though the order was illegal and harsh in view of the fact that the organization had no subversive aim. The UHS had found it necessary, however, to authorize local chiefe to hold small meetings with their groups to explain matters since otherwise it would have been difficult to maintain discipline and avoid outbreaks among the membership. The petition further protested against the denial of first-class mail privileges to the UNS, and the cancellation of the postal franchise and second class registry of the newspaper. It saked the President to intercede on behalf of Juan Ignacio Padilla, since the latter had only tried to warm of the harace of a general strike. The petition concluded with a plea that the President allow the Sinarquistas to continuo

48. Ultimas Moticias, Mexico City, 14 July 1944.

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their activities as before so that they would no longer be considered subversive—a false estimate of their organization which had resulted in unjust persecution and false alarms throughout the country. The memorandum to the Attorney-General roundly declared that the latter had no right to prohibit the publication and circulation of El Sinarquista since that could be done only by a personal order of the President.

2. Continued Publication of El Sinarquista and Orden

Sinarquista publishing activity. On 29 Ame, without any interval, the regular weekly issue of El Sinarquista appeared, although in a reduced format and a much smaller edition. The content of the newspaper was considerably more moderate than that of previous issues, but used the discussion then current of the speech of Chilean Senator Lafferte at the Minth Congress of the Mexican Communist Party to suggest that the charges in the 22 June issue were really true. Since 29 June El Sinarquista has appeared regularly on an even more reduced basis. The 6 July issue consists of only one sheet, mostly devoted to blaming on Communist machinations the alloged injustice committed by the Attorney-General.

49. SP/2246/3.

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The monthly Sinarquista review, Orden, which was not benned, has appeared regularly, apparently with no publishing difficulties whatever. The July number, issued shortly after the government's measures, although still published at general Sinarquista headquarters (Morelos 74, Mexico City), carried a note denying any connection with the Sinarquista movement. A considerable part of the issue was devoted to picture stories of the Russian Revolution and the Spanish Civil War, stressing the anti-religious tendencies of both. An editorial complained of the Attorney-General's measures against the Sinarquistas while the Reds were left free to continue their activities openly.

The August issue of Orden shows a change of office address to a row location at Abraham Gonzáles 14-18, Felips Navarro remaining irector. A prominent feature of this issue is an interview with Torres Bueno, in which the Sinarquistae are referred to in the third person and not, as in previous issues of Orden, in the first person. In the interview, Torres Bueno stresses the injustice of the charges against the UES and the measures taken by the Attorney-General, and declares that the UES will continue to work for the establishment of a Christian Social Order in Mexico.

It appears clear from the slight camouflage employed to hide the Sinarquista character of Orden that the UNS plans to continue

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publishing El Sinarquista as an official organ, thus testing the forbearance of the authorities as an order of the Attorney-General is openly violated, and that Orden is being given sufficient evidence of severance to circulate without loss of mail privileges and to serve as the major vehicle of Sinarquista propaganda should El Sinarquista be forced to cease publication.

3. Continued Sinarquista meetings

Maile large mass meetings have not been held, the UNS has continued smaller meetings although on a reduced scale, and has persisted in the exission of propaganda. During the months of July and August, Mexico City newspapers reported sufficient instances of meetings discovered by police in various parts of the country to lead to the opinion that the local groups have continued to hold small clandestine meetings. A number of instances were also reported of the printing and distribution of leaflets, propaganda declared illegal under the government orders. So

4. The Institute Mirtires Sinarquistas .

According to the Congressional Committee for the Defense
of the Revolution, which has made a specialty of watching
Sinarquista activities, the UNS has organized the most fanatic

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^{50.} Novedades, 13 August 1944; Excélsior, 22 and 30 August 1944; El Nacional, Mexico City, 22 August 1944; El Popular, 8, 17, 18, 22, and 25 July 1944; See also Ja Voz de Moxico, Mexico City, 6 and 20 August 1944 and Tiempo, 25 August 1944.

and militant of its members into a special group, prepared to carry out sabotage, assassination, and other deeds of violence should the UNS decide to turn to direct action. The members of the Institute swear to obey a secret series of ten commandments, do not carry the Sinarquista membership card, and are instructed to deny that they are members. The Institute is supposedly charged with the carrying out of murders planned by the UNS, espionage, and counter-espionage. There is as yet no evidence either to substantiate or disprove this charge.

B. The Failure of the Government to Pollow Up Its Measures

After the energetic measures of the first two weeks following

22 June, the Avila Camacho administration has not undertaken
further measures against the UNS nor has it enforced the orders
issued, with great energy. While Sinarquista meetings have been
uncovered and the participants arrested in the states, meetings
continue to be held in the Federal District without interference
from the federal authorities, although the meeting places were
well-known and the police had been informed. The charges against
Manrique and Padilla have been acted upon with growing reluctance.

The police undertook to search Padilla's house for possible
evidence only twenty days after he had been ordered handed over to



Tiempo, 25 August 1944.
 Tiempo, 25 August 1942.

the criminal courts by the Attorney-General. The house was vacant when examined, and Padilla's files had been removed. Similarly, neither Padilla nor Manrique have been arrested, although orders have been issued for the arrest of both. 55

C. Pressure Upon the Government to Take Further Measures.

The failure of the government to enforce its own orders strictly end to procede with the charges against Manrique and Padilla have let to considerable agitation on the part of opponents of the Sinarquistas. On 21 August the Congressional Committee for the Dodense of the Revolution issued a bulletin accusing the judicial authorities supposed to prosecute the charges against the UMS with negligence of their duties. The bulletin in a series of questions asked the authorities whether they did not know that Pedilla continued to visit the Sinarquista national headquarters regularly, whether the charges against Padilla and his associates had been dropped, whether the authorities were unaware of the fact that the Sinarquistas were continuing their propaganda activities. The bulletin also charged that the UMS had organised a secret society of fanatic killers, the Instituto Mirtires Sinarquistas; that the membership in the Federal District continued to hold meetings at

53. El Popular, 1 August 1944.

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a number of houses listed for the benefit of the authorities; that one Sinarquista group had in its possession nearly 60 kilos of dynamite; and that Sinarquistas participated in the 20 July riot in the central square of Mexico City. The Congressional Committee for the Defense of the Revolution, through its president, declared that as soon as Congress resumed sessions, the failure of the authorities to proceed against the Sinarquistas would be brought to the attention of the Chamber and an explanation be demanded.

54. Tiempo, 25 August 1944

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y. The Present Status of the UNS

It is still tor early to determine the effects of the government measures upon the UNS. The movement has undoubtedly been greatly restricted in its propaganda activities, just after it had suffered defections in membership because of the withdrawal of Abascal and his followers. More seriously, its rash call to arms on 22 June has alienated a considerable body of public opinion previously favorable to it. On the other hand, none of these events ripresents a death blow by any means. The UNS can probably still count upon a majority of its membership, and the active anti-Communist campaign it is still carrying on in time may well heal over previous resentment aroused by the May schism, the attempted assassination of President Avila Cumacho, and the June articles. Unless the Mexican Government proceeds with the prosecution, the UNS can circumvent the official restrictions and disregard them sufficiently to engage in a considerable amount of agitation. The UNS leadership undoubtedly hopes that within a short time, it will be able to persuade the Mexican Government to lift all restrictions,

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APPENDIX I

SINARQUISMO IS TO BE A POLITICAL PARTY

RX-CHIEF ABASCAL RXPLAIMS WHY HE HAS LEFT THE UNS-

The change in the line of the Union Bacional Sinarquista, as well as the systematic discrediting and neglect shown him, especially in regard to the condition of the Maria Auxiliadora Colony in Lower California, were the true reasons which led Lio. Salvador Abascal to leave the UNS, according to a statement made exclusively to Movedades by the man who was once Supreme Leader of Sinarquismo.

A gentlemen's agreement between Abascal and the present leader of the USS had kept Abascal's lips scaled until Lio. Torros Bueno broke the agreement. This left Abascal free to explain the reasons which he had proviously promised not to publish. In his statement the ex-Sinarquista saids

"Lic. Manuel Torres Buono, the present leader of the Union Macional Sinarquista, has not reciprocated my attitude of discretion and silence like a gentleman. Already accustomed to lying and cheating, he has continued spreading false and even slanderous stories about my separation from the Sinarquistas.

"The full text of the article in Novedades, 17 May 1944,



"I no longer have any reason to hold back the truth which the people ought to know.

- "(1). In July of last year, when I came to Mexico City to better my health and to discuss the affairs of the Maria Auxiliadora Colony, I found out that Lie. Torres Bueno and his favorite, Salvador Baverro, Chief of Information of the Mational Committee, were spreading many lies and false, unjust opinions about my leadership of the Colony. I also found out that, although the necessary supplies for the rapid success of Maria Auxiliadora could have been furnished me, they were refused systematically under the pretext that there was no money, although actually there was.
- "(2). At this same time, I became deeply indignant upon reading in El Sinarquista of the whitewashing of the character of Benith Juares in the León mass meeting last year. Salvador Mavarro explained to me that Lic. Torres had been rebuked by the president of the Republic for an attack which I had made upon Juares in a public meeting. I shall never repent this attack.
- "(3). For these two reasons I broke with Lic. Torres in an interview which we had at the end of July of last year. I have never again spoken with him except on one day--in August or September--when for the make of courtesy I exchanged an extremely brief greeting with him. As soon as possible I informed him,

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through the proper channel, that I was dissociating myself from the organization.

- "(4). Afterwards I called to the attention of Lio. Torres, in a letter from Maria Auxiliadora, a truly shapeful thing: that he had placed the Christianity of the Mexican people and the.

 'Christianity' of the Protestants of the United States on the same plane, when asked by foreign journalists what Sinarquismo means by the words 'Christian Order.' The People have not been revolted by this because they cannot read, and because Lio. Torres Bueno is a master in the art of expressing his ideas with ambiguous words and twists so that he deceives equally people in opposing camps.
- "(5). In regard to the colony, Lic. Torres fought ne with hunger, refusing me whatever I asked for, with the intention of making ne fail.
- "(6). At one time I thought seriously of reassuming the national leadership of Sinarquieno and deposing Lic. Torres. He then used fraud and many calumnious stories to force me to leave the colony. I cannot say what this fraud was for I should have to publish the names of certain people who innocently had a part in the matter. They were equally deceived and taken off guard by Lic. Torres.

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- has corrupted the whole organization since many of its leaders are now no more than his benchmen, without personalities or minds of their own, delighted because they no longer run any risk under their leader's policies. The rank-and-file continue to give up their lives and go to jail. The top men no longer run even the slightest danger. For these reasons I have completely given up contesting control of the organization with Torres Bueno. I could count upon only a very few chiefs.
- "(8). The rumor has been spread that I left the colony of my own free will and because of a serious breakdown of my mealth.

 Both stories are completely falso.
- "(9). In the last few days a false story has been spread in
 the Mational Committee that I was in Mexico City from the 5th to
 the 9th of April to oppose the conversion of Sinarquismo into a
 political party; that I argued behind closed doors with Torres Bueno
 and with the regional chiefs; and that on the 9th of April I was
 defeated and renounced Sinarquismo. All the colonists of
 María Auxiliadora know that I left the colony precisely on Sunday
 April 9. Many people saw me in La Pas on April 10 and 11. I can
 prove definitely that I arrived in Mexico City with my father-in-law.

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my wife, and my son April 14. Rafael Devese and Silviano Castellanos, who also have witherawn from the Sinarquista organization for the same reasons as I, luft the Colony with me. With only two or three exceptions, all the colonists remained behind because I begged them repeatedly to stay; but they are profoundly disgusted with the actions of Lic. Torres Buenos and Company.

- "(10). It was many days after my arrival in Mexico City that I became aware that Sinarquiemo was to become a political party.
- Communism any shere. This is a demagogic device of Lic. Torres to keep the poor deceived people under his control. It is also a fantasy, which perhaps Torres and his gang believe. They believe or preteri to believe that when the break between the United States and Russia comes, our cousins will demand of the Mexican Government that it destroy the Left, and that therefore the president will be obliged to call upon Sinarquismo. Then Sinarquistas will take up arms if nacessary.... What is really necessary is that Sinarquismo be ready to overthrow the Revolution, which was destroying Mexico a century before the and Communism was heard in our country. The Revolution will continue destroying Mexico even though Communism is annihilated in Asia and Europe and the entire world. It is

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necessary that Sinarquismo again tell the people the truth and nothing but the truth and that it always tell the truth clearly. But Lie. Torres will do nothing like this.

Sinarquismo is going to become will oppose any official government party planning to control elections. It is very easy to say that one is going to oppose the PRM. The present government party what is difficult is to stand up against guns in order to insist upon an honest election.

"Once Sinarquismo becomes a political party, it is only going to play the game of the well-known 'democracy' and the Revolution. And the people, as always, will be played for suckers.

"People should withdraw from this type of Sinarquismo which is now only one more kind of freud.

- "(13). I ought to ask the forgiveness of the mass of Sinarquistas, and I do so now, for the extremely serious mistake I committed in appointing Lic. Torres national leader.
- "(14). The Trueba Olivares brothers, Rubén Mendosa, Rafael Deveze, Silviano Castellanos, and other estimable people have withdrawn from Sinarquismo for the same reasons that I have."

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APPENDIX II

THE ATTORNEY-GENERAL'S OPINION OF 5 JULY 1944*

Considering:

PIRST -- That on the first page of the issue of El Sinarquista published on Thursday, 22 June of the present year, there appears an article with eight-column headlines entitled "ATTENTION:

GENERAL STRIKE: Sinarquismo makes an urgent appeal to the Army.

It must make ready to repel aggression. The people will fight at the side of the soldiers against the Communists."

That in the said article, referring to the agitation for a general strike to take place on 5 July, there occur, among others, the following expressions of opinions:

The day of the great betrayal is approaching. It has been set for 5 July. -- Remember it, soldiers of Mexico, 5 July. -- Soldier of Mexico: The Religion, Union, and the Independence of your brothers—the flag which you serve loyally—are to be wiped off the surface of our country and our consciences. Now as at Angostura, at Puebla, as at Chapultepec, you will know how to act vigorously against knaves, against traitors, against those who have betrayed you by betraying your banner. Remember well, brother

-El Popular, 6 July 1944, which published the full text.

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soldier: 5 July, or efterwards...whatever day has been chosen....

You will know the difference between your people and the traitors;
between your flag and the red-black flag of strikes, between Mexico
and Russia...And remember also: that wherever you meet a

Sinarquista, you are sure of finding a brother, a clean, patriotic
Mexican, resolved like you to go to the place of greatest danger
and arrive at last at victory...Wexican soldier, attention;
Mexican soldier, arms ready!...The password and countersign are:
LONG LIVE MEXICO!

That on the first page of the same number of El Sinarquista, under the subtitle of "This coming 5 July the Red revolution may break out. --Any emergency should find patriots firm and resolute, with modesty, with honor, and with courage" appears another article which contains the following paragraphs

"Mexico will be at the mercy of the Communists on 5 July if the government of Avila Camacho holds fast to its attitude of stolid defeat before the challenging insolence of the labor bosses.— Upon the declaration of the GENERAL STRIKE, the Soviet Embassy will become the Mational Palace of Mexico, and from there measures will be dictated for converting our country into Soviet Republic Mo. 17 and the headquarters for the Bolshevisation of America.*

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That on the editorial page of the same newspaper, there is an article entitled "THIS IS NO COVERNMENT", which contains the following lines:

"But when, as in Mexico, the vicient passions of the most debased men do not find a check even in the very authority of the Government against which they turn violently to destroy it, and the Government does not even show at least a nominal resistance, society is lost. It has fallen prey to anarchy.

"Order, authority, government--in a word, Sinarquismo-- these
we have been demanding for Mexico, for only through Sinarquismo
will Mexico attain its selvation after more than a century of
complete anarchy. And to that end we have been fighting for seven
years, in the course of which we have raised an army of more than
five hundred thousand soldiers who are resolved to give Mexico a
government with legitimate and effective authority, which will
recestablish and guarantee order.

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"Can the administration of Sr. Avila Camacho be called a government? He himself does not believe it when he fears to give orders like a man with authority; when the first cry of opposition or threat causes him to show his heels and flee the field.

"Can a regime be called a government when it is presided over by a man who prefers to abandon his people to the mercy of vultures



in order not to annoy the vultures? Can a regime be called a
government when it begins to tremble and also crumbles away before
the simple threat of a few cunning people who shield themselves
with foreign support?

"Our poor Nexican people; Besieged and despoiled by outsiders, squeezed and rant by insiders, abandoned and betrayed by those who have undertaken the duty to give justice and defend the people, for they live on the flesh of the people and enrich themselves through the people's sweat.

"Poor people of Mexico! They impose humiliating laws on you that degrade you in the eyes of the rest of the world; they destroy your economy and sharpen your misery; those who exploit your hunger and nakedness count upon the friendship and support of your government....

"And there is no one to defend you!

"People of Mexico... HOW MUCH YOU HEED A GOVERNMENT."

SECOND-That, when the present official investigation to determine the people responsible for the expressions contained in the shows newspaper articles began, a demunciation of these same facts was received from the deputies Salvador Ochos Renteria. Addin Velards, and Pedro Télles Vargas; it was decided to add their information to the investigations of the Attorney General's Office.



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THIRD--That upon being summoned to declare who had written
the articles called "ATTENTION, GENERAL STRIKE!" and "THIS IS NO
GOVERNMENT", the Director of 51 Sinarquista, Sr. Feliciano Manrique,
stated that the author of the articles is his. Juan Ignacio Padilla.

That, upon being examined in his turn, Sr. Juan Ignacio Padilla admitted that he wrote the articles.

That both Manrique and Padilla refused to agree that in the said articles, they urged the Army to rebel, although they admitted that the said articles are offensive grammatically; but they refused to believe them injurious in their spirit, and the two men explained the nature, procedures, and ends of the Sinarquista movement.

POURTH--That in the language of the first paragraph of Article 145, revised, of the present Criminal Code, the crime of subversive activity is committed by the foreigner or Mexican national "who by word of mouth or writing, or by any other means, carries out political propagands, among foreigners or among Mexican nationals, spreading idear, programs or norms of conduct of a foreign government which disturb public order or affect the sovereignty of the Mexican State."

That, in accordance with the second paragraph of the Article, public order is disturbed "when the acts mentioned in the preceding

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paragraph tend to produce rebellion, sedition, riot, or mutiny."

That, in conformity with the third paragraph of the said Article, "national sovereignty is affected when the said acts can inveril the territorial integrity of the Republic, obstructing the functioning of its legitimate institutions, or propagate discospect on the part of Mexican nations for their civic duties."

And that, finally, in accordance with the fourth paragraph
of the law cited, it is also a penal offense to carry out "acts of
whatever nature that prepare materially or morally for the invasion
of Mexican territory or the subjection of the country to any foreign
government whatever"; all of which shows that the present laws
prescribe punishment for any act which, even though moral, results
in a weakening of our political regime at a time when the country
is at war, this being the only way to avoid the spread of defeatism.

FIFTH.-That the articles of the newspaper called El Sinarquista, which are partially quoted in the first section, beyond any possible kind of doubt, involve the commission of the crime of subversive activity within the meaning of the above Article 145, revised, of the Federal Criminal Code, for:

 (a) They carry out political propaganda among Mexican nationals in writing, spreading ideas, programs, and norms of action peculiar to foreign governments;

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- (b) They tend to provoke rebellion and thereby disturb the public order;
- (c) They affect national sovereignty, creating hinderances to the functioning of the legitimate institutions of the Republic and propagating disrespect on the part of Mexican nationals for their civic duties; and
- (d) In view of the fact that Mexico is at war with the Axis
 powers, they tend to weaken the Government of the Republic and
 to create a defeatist current of public opinion.

In offect:

In order to demonstrate that <u>Sinarquismo</u> carries out political propaganda among Mexican nationals spreading ideas, programs, and norms of actions peculiar to foreign governments, it is necessary to compare the teachings of <u>Sinarquismo</u> with those of the Spanish <u>Falange</u>, which in turn were taken from the "traditionalism" of Visques de Mella and from the "Jonsismo" of Ledesma, and adopted officially by the present Spanish government.

This brief comparative study will make it possible, in passing.

to emphasize the absolute lack of originality of the Sinarquista

movement, the leaders of which have only imitated the procedures

of action and repeated almost word for word the ideas of their



Spanish progenitors. It is not, then, mere chance that Sinarquismo takes as one of the fundamental parts of its program an aggressive Hispanism, which openly or secretly deplores the political independence of Mexico and yearns for the state of affairs obtaining in the time of the absolute monarchy.

Upon the death of Ferdinand VII -- the archetype of dynastic absolutism -- there arose the so-called "traditionalism" of Vasques Kella, the champion of political Carlism, who based his teaching on three fundamental principles: Catholic unity, Christian monarchy, and the observance of traditional regional autonomy. This doctrine is the foundation of the Spanish corporative state. Por Hella -- who claimed that he postulated a representative democracy -the basis of representation is not the individual, but the group, the class, the categories which are formed whenever individuals or groups hope to achieve a common end. Therefore the Spanish Cortes ought to represent, according to Mella's thinking, the material interest (agriculture, industry, and commerce), the intellectual or teaching interest (universities, scientific, and artistic associations), the moral interest (the clergy), and the interest of defense (the army). There is however, a point in Wella's teaching which has never been adopted by Falange writers: Wella never thought of suppressing political parties. Actually he



olearly stated that there will be parties among men as long as they are agreed not to agree, and that this agreement not to agree will last as long as there are men in the world.

If "traditionalien" has its origin in the reaction fighting against the Cortes of Cadis, which according to the statement of one Fulangista embodied "the liberal infamy", "Jonsiemo" (taken from the name Mationul-Syndicalist Attack Organizations one of the fascist movements incorporated into the Falange 7) appears during the dictatorship of Prime de Rivers and begin the job of undermining the Spanish Republic the same day that the Republic was born. And the inspirer of Jonsiemo" was Ledesma, whose teaching as regards political parties has been accepted in toto by Falangiamo and by the present Spanish government. For Ledeans, parties always represent special interests "without this fact being disproved by the circumstance that at times they represent the majority within a country". But, Ledesma is especially preoccupied by the "strategic work of the seisure of power". The "Mational State" of Ledesma is supposed to pass through three successive phasess in the first place, the organization of a political force for the exclusive service of what has been called the "Kational Idea"; in the second place, the installution of this political force as the only political party permitted to exist and

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operating as a dictatorship; and finally the establishment of the "Estional State", which will have as its object guaranteeing the accomplishment of "the spiritual, political and economic designs of which the Estional Genius is capable".

The Party (in capital letters) is considered by Lederna to
be the essential element of the revolt which, opening the way for
the Dictatorship (also in capital letters), overthrows the
"previously existing legality" and constitutes itself as the new
regime. "In order that the Party may be able to accomplish its
task, which is the greatest possible because of its decisiveness",
six fundamental requisites must be fulfilled:

- (1). The revolt must be directed by and achieve success through a single Party;
- (2). There must be educational preparation for revolt and political organisation.
- (5). The revolutionary units need frequent mobilization.

 The participation of those unable to take part in abortive attempts augurs ill for the achievement of the plans of the Party. One must not count upon people who may offer their services for the decisive day or moment, nor with organizations wrapped up with keeping proper erchives. The weight and success of the revolt depend on those units which are drawn from the military formations of the "Party";

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- (4). The use of forces and surprise are the principal elements of the revolt. The existing legality usually has at its disposal a powerful armed apparatus and must be dealt with by violent conquest.
- (5). The objectives of the revolt must be popular and well known to the mass of the population. Revolt is favored and made possible by political causes having their origin in the judgment of the people concerning the actions of the Regime. An absolutely necessary antocedent to revolt is political agitation. Thus there is prepared the atmosphere of agitation and high tension which makes it easy to consider as natural the action of the Party in deciding to adjust the national destiny by violence; and
- (6). The revolutionary Party has to be totalitarian. That is, it will be a Party, a political discipline, but against all other parties. In order that its attitude of violence appears just and moral, it must have a totalitarian character. "It must identify itself with the State and represent the will of the country, even to creating that will. Thus, and only thus, can it achieve the success of the revolt and can it give to its Government duration, permanency, and glory." (J. Beneyto and J. Ma./Costa, El Partido, pp. 45 and 46)

It would be prolix to go further into the ideas, programs, and

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norms of action of <u>Falangiamo</u> and the present Spanish government.

The explanation above is sufficient to bring out the identity of the teachings which have inspired the <u>Friangista</u> and the <u>Sinarquista</u> movements, even now when, in the countries of the Americas, these political tendencies have been forced to mark their true political countenance, even to the point of denying ciamorously their unmistakable totalitarian origin.

Like Spanish falangismo. Sinarquismo declares that it has as its aim the establishment of a "political order" which will be in accordance with the Christian tradition of the people, with the secular customs of the people, and its distinctive manner of existence. But, the Sinarquistas only appear to be a group with pro-clerical tendencies, since the moment that ecclesiastical dignitaries do not give uplimited approval to Sinarquismo, when they reprove its procedures, the respect and obedience which the Sinarquista leaders say they ought to show to the clergy, disappear. And if it is inadmissible, on constitutional or historical grounds, for us to allow the intervention of the Catholic Church in the political life of Mexico, even less can we accept the plan to supplant popular sovereignty in favor of the leaders of a group which aims at the establishment of a government concentrating all power in one man.

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Sinarquismo describes itself as a political-civio organization, but it will not agree that it should be considered as a party, and one properly considered such. On the other hand, it prefers to call itself "Movement" -- a word dear to the "Caudillo" Franco7 and to the Spanish Falange. And even though it may be thought that the foregoing comment is a trival detail, when all of the teachings of the Spanish Fulance are considered, an adequate explanation of this spiritual attitude is found: Sinarquismo does not seek to be a party on the same plane as other parties, but "The Party", by entonomasia; and not even the leading party but instead the only political party permitted to exist. But as long as Sinarquismo does not succeed in soizing power, by employing the procedures outlined by Ledesma, it refuses the name of political party. Now, this remunciation carries with it another which throws the most light on the ends of Sinarquismor Sinarquismo states that it is a Christian political-civic organization; and yet it refrains from taking part in local elections; that is, it abandons the only means which could lead directly to its goal. What are, then, the means which Sinarquismo proposes to resort to in order to succeed in having its teachings become dominant? The answer is given in such transparent form that it is unnecessary to state it. Moreover, it should be recognized that the use of its

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present tactics has enabled Sinarquismo to grow and expand: the very vagueness of Sinarquismo's program; its ostensible remunciations; the spirit of sacrifice which some of its members pride themselves on showing; its Illuminism, aim deliberately at giving Sinarquismo the appearance of being a strongly moral organization which does not endanger the existence of our incipient democracy.

Up to now Sinarquiemo has limited itself to organizing the political force necessary for seizing power; but the newspaper articles published in the 22 June issue of El Sinarquieta show that it believes that it is ready to take control of the Government.

Sinarquismo has already achieved the first stage listed by

Ledesma. In the editorial entitled "THIS IS NO GOVERNHENT", an

expression is let slip, which even though it may not tell the

truth, is not a mere figure of speech: The article states that

during seven years, Sinarquismo has worked to form an "army" of

more than "five hundred thousand soldiers". The plan for revolt

is clearly shown when the article states that these "are resolved

to give Mexico a government with legitimate and effective authority,

which will reestablish and guarantee order". The concentration of

masses of people at predetermined places and times is not simply—

as has been thought at times—a harmless activity or a puerile exhibi
tion [but] revolutionary [nots] so that when the hour strikes Sinarquismo

can undertake the enterprise of seizing power by force or of taking

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control of the Government, taking advantage of a state of stuperaction sixilar to the one in the Italian Government during the march of the Pascists on Rome. The second and third points of the program cutlined by Ledosma have also been fulfilled. The occasion for the people to accept as natural the use of vicience (points four and five of the same program) was perfectly provided by the announcement of a general strike, particularly as it had been preceded by a systematic compaign discrediting our institutions. Thus there had been created the moral climate projitious for the use of violence under the pretext of working at the direction of higher patriotic motives. Under such conditions, in spite of their elever form, the articles under examination, can only be interpreted as an invitation to the Army and to the public in general to rebel against the dovernment of the Republic.

out if one remembers the battles which the Liberal Party had to wage during the past contury in order to proscribs all interference by the Church in the sphere of politics. And if in the middle of the mineteenth century, in the Spain of Isabella II, the "Traditionalism" of Vasques de Hella was an amachronistic and reactionary tendency, what should be said of a political movement born in Healed a century later, when the separation of Church and State, the

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nationalization of the wealth of the clergy, the principle of religious liberty and the law forbidding priests to take an active part in politics, have taken root for all time in our consciences.

Tet more, Sinarquismo aims at exploiting for its profit the religious sentiment of our people--which in itself is entirely respectable--even refusing to listen to the opinions of the highest Church dignitaries when they have repeated emphatically and publicly their disapproval of the procedures adopted by Sinarquismo.

For the rost, the attitude of the leaders of Sinarquismo is not strange in the least. They not like individuals with the destiny of accomplishing a divine mission, and they are sure that they are therefore freed from the duties and the obedience and submission which they say they have toward the ministers of the Catholic cult:

In the recent speech of the "Leader" of the Sinarquista movement in the City of Leon, there are these arrogant expressions:

> We are at our post. Let the adherents of the Mexican Revolution and those who are not so know it. We are in the place that Providence has assigned us, and we are carrying out a duty, for it is a duty to serve God and our Country....

And Sr. Juan Ignacio Padilla, when questioned how he could explain the fact that the Catholic clergy-which he called the repre-

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inite Bactonel Finerquists which is not the representative of the close not, enswored in themse words:

The Verican elergy can agree with the religious policy followed by the Government, for they are free to remainse whatever prerogatives and rights are granted to Catholico by natural laws but the Union Macional Sinarquista, one of whose purposes is to desent the interests, rights and liberties which natural law accords citizens, also has the right to exercise the right of petition, of protest, and of criticism in regard to whose points which refer to the religious policy followed by the Government.

In the light of the above declaration, it is only necessary to add that the Onion Manional Simurquists has violated Article 30 of the Constitution of the Republic, which denies to periodical publications of a denominational character the right to observe the authorities of the country, or of private individuals, which the circuity connected with the Americana of public involvation.

It is useless to compare, even briefly the platform of principles each rined in our fundamental laws and feithfully obeyed by the Covernment of the Republic when it bound itself to the cause of the United Sations, with Sinarquista ideas. Sinarculamo is nost clearly the opposite, the autithoris of democratic principles.

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Ruman nights are the cornerstone of every regime which hopes to be described as democratic. And, if one takes the unlikely hypothesis that Sinarquismo will succeed in getting control of the country, its aim of being the only party permitted to exist gives a hint of the fate of human rights. In that event, it is unimaginable that any differences in political, ideological, or religious opinions would be allowed, and the whole life of the people of the country would depend on the will of one person.

But, even if one does not contrast democratic ideas and the Sinarquista platform, there is no need to think long to determine how reprehensible are Sinarquista activities in the very moments when Mexico is passing through one of the most decisive periods of its history. It is possible that these activities do not constitute treason against our country; but it is u deniable that such activities are hardly a useful contribution to our country in its struggle to reaffirm its political independence and continue working for complete economic emancipation. And even less can it be thought that Sinarquismo is a worthy participant in the international task which the Government of Mexico set itself, when an emaination reveals that all Sinarquista efforts tend to weaken the alliance between our country and the United Nations.





To sum up:

Sinarquismo for seven years has been carrying out intensive political propaganda among our peasantry, through written and oral media. It has spread the ideas, programs, and norms of action of a foreign government—the Spanish—which in its turn derives them from Italian fascism, from Falangismo, from "Jonaismo", and from the so-called "Traditionalism" of Várques Mella. It has impeded the functioning of our institutions and has propagated disrespect among Mexican nationals for the discharge of their civic duties. Pinally, Sinarquismo has disturbed the public peace by a thinly-disguised appeal to the Army and the people of Mexico to rebel against the Government of the Republic.

These actions come within the definitions of Article 145.

revised, of the Criminal Code, and the people guilty of this crime
of subversive activity should be bound over to the courts.

SIXTH--That the articles contained in the issue of El Sinarquista of 22 June last:

- (a) Advise, incite, and provoke the Army to revolt;
- (b) Advise, incite, and provoke the public in general to revolt or sedition;
- (c) Insult the authorities of the country with the intention of bringing upon them hate, scorn, and ridicule; and



(d) Insult a friendly nation, as well as its legal representative in our country.

That the above facts are punishable under Article 3, Section II, and Article 33 of the Press Law, under which they constitute an attack upon order and public peace; and

SEVENTS.-That Article 19, Section VIII of the Organic law
Defining the Functions of the Attorney-General's Office empowers
the Federal Attorney-General to send writton instructions to
Federal officials, and since the matter under investigation should
be regarded as of national importance, I have decided to issue
the following order:

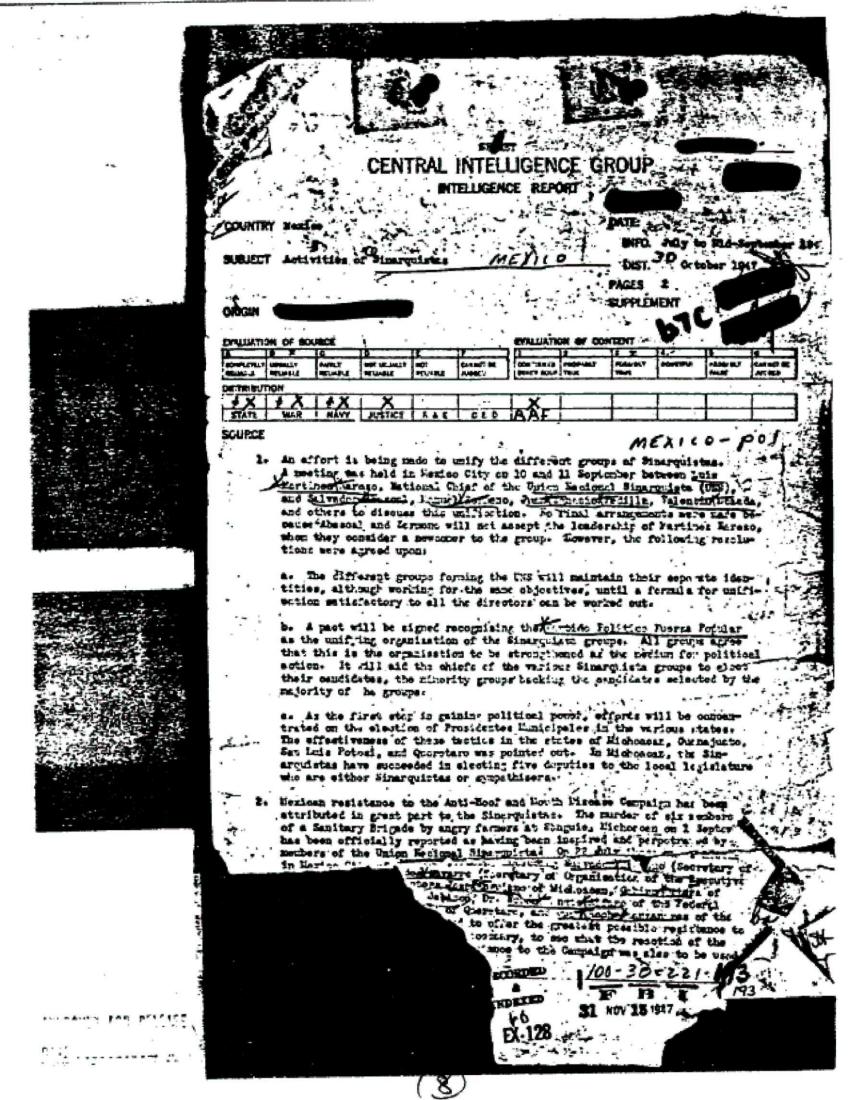
SOLE ARTICLE -- Let orders be issued to the head of the Department of Freliminary Investigations of the Federal Attorney-leneral's Office that, in view of the facts and considerations expressed above, he initiate criminal prosecution against Sr. Juan Ignacio Padilla and the other persons who are answerable for the crimes of subversive activity and attacks upon public order or the public peace within the respective meaning of Artacle 145, revised, of the Griminal Code and Article 3, Section II, of the Pross Law.

Měxico, D. P., 5 July 1944

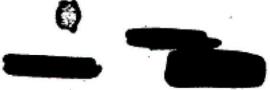
The Attorney-General of the Republic, JOS-AGUILAR TW. YA



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Case Number:	F-1996-01435	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	



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to gain new members for the UNE. On S he ust, Jose Anguiano, Sinarquistal chief in Lichoscon, sent a secret circular to the cornittoss in each village of Lichoscon, taking them to oppose the Campaign, indite feeling against it, and gain new members. The organ of the UNE product, also reflected Sinarquista opposition to the Campaign from S July up to the date of the Lichoscon murdors. It then accused the supporters of Schoral Lazar therefore of having indited the farmers to commit the deed.



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SOVIET OBJECTIVES IN LATIN AMERICA

SUMMARY

tince for strategic reasons the Latin American Republics can be of scant use to the U.SR as allies or sources of supply in any future war, the emphasis of current Soviet activity in the area has recently shifted to measures that can be counted on to prevent, reduce, or place in doubt US access to the area's strategic materials or military support.

For so long as the US exercises its present role of leadership in the Western Hemisphere, the Communists cannot hope to seize and retain power in any Latin American country, which means that the Communist Parties in Latin America are of interest to the USSR only insofar as they forward objectives other than that of winning power and forming a government, and only insofar as they do not, by becoming too strong, call down upon themselves punitive measures by the Latin American governments. Most of the energies freed by de-emphasizing Party activity as such, appear, however, to have been channeled into preparations for espionage, sabotage, and clandestine operation of the Party in the event of suppression.

The present Communist line apparently rests on the assumption that the USSR's objectives in Latin America can be achieved with the Party's present following, and that it would be unwise to risk alienating that following or to invite suppression by advocating the overthrow of the existing governments. A show-down with the anti-Communist Latin American governments is thus indefinitely postponed.

The Communist Parties in the other American Republics are unlikely to increase their following or extend their influence during the months ahead; in fact, with certain exceptions, they may lose both membership and influence. In many Latin American Communist Parties there is a tendency for intraparty disputes to arise, thereby weakening Party prestige, but the dissenting factions may actually aid Soviet espionage agents to reach sectors of the public not normally available to the Communist Parties themselves. This loss of strength does not mean, however, that the Soviet Union's basic objectives in Latin America are likely, within the near future, to become unrealizable or that it does not still lie within the Soviet Union's power to reverse the present trend.

It is estimated that Communist nonpolitical organization in Latin America has already proceeded so far and so effectively that in the event of war with the US, the USR can, by merely giving the necessary orders, paralyze the economies of Chile and Cuba and thus deny to the US, at least temporarily, the copper and sugar that they would otherwise contribute to the US war effort. It is further estimated that in other important areas of Latin America, Communist undercover penetration of strategic sectors of the various economies is already such as to permit the USSR, by merely giving the necessary orders, 1) to withhold from the US its normal peacetime flow of strategic raw materials from Latin America, and 2) to precipitate economic crises in several key Latin American countries.

Note: This paper has the concurrence of the intelligence organizations of the Departments of the Army and of the Air Forces. Statements of dissent by the Departments of State and of the Navy are set forth in Enclosures "A" and "B".

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"The Societ Government anticipates an inevitable conflict with the capitalist world." (OFE 1)

"Since for strategic reasons the Latin American Republics can be of scant use (to the USSE) as allies or sources of supply in any future war, the emphasis of current Soviet activity in the area is upon measures calculated to undermine the strength of the assumed future antagonist, the US, rather than upon measures calculated to build up the military potential of the USSE itself. These measures are, without exception, of such character that they will continue to pay dividends after an enforced Soviet withdrawal from the area on the eve of any future war." (ORE 16)

- The measures most certain to pay the Soviet Union dividends after an enforced withdrawal from Latin America are those that can be counted on to prevent, reduce, or place in doubt US access to the area's strategic materials or military support.
- 2. Such measures of course require careful study on the part of the Soviets, and such study cannot proceed in the absence of full, continuous, and dependable intelligence that will lay bare the amount and character of the assistance the US will wish to receive from its Latin American allies in the assumed future war as well as the latter's capabilities and intentions, and the character of their political, economic, and social systems. A prerequisite for such intelligence is an efficient espionage and intelligence-collection service within the area, so organized as to be able to perform its tasks without military or diplomatic protection from the Soviet Union. Without such a service the Soviets, unable to make prior plans for the campaign of slowdowns, strikes, and sabotage that will be the USSR's most effective Latin American weapon during any future war, would have to place their reliance upon uncoordinated local improvisation.
- 3. The measures in question also call for peacetime concentration of Soviet effort in each Latin American country upon a) the development of the Communist Parties; b) the capture of organized labor with special attention to the trade unions whose members extract, process, and transport materials of vival importance to US war economy; c) achievement of a propaganda position that will assure widespread and continued popular sympathy for the Soviet cause in the war; and d) providing an organizational base for undercover wartime activities and for further propaganda.
- 4. Of the foregoing objectives the first (the development of the several Latin American Communist Parties) receives markedly different emphasis in different countries, but receives major emphasis at present in no country. For so long as the US exercises its present role of leadership in the Western Hemisphere, the Communists cannot hope to seize and retain power in any Latin American country, which means that a) no Latin American Communist Party can realistically look forward to success as a political party in the ordinary sense of the term; b) the Communist Parties in Latin America are of interest to the USSR only insofar as they forward objectives other than that of winning power and forming a government, and only insofar as they do not, by becoming too strong, call down upon themselves punitive measures by the

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Latin American governments; c) the USSR would be wasting money, time, and energy if it sought to develop the Latin American Communist Parties beyond the limits set by b). These considerations, plus the sharply anti-Communist trend of governmental policy in the several Latin American countries, apparently account for the fact that the local Communist Parties, presumably under guidance from Moscow, have in recent months stepped down the level of intensity of their activities that are appropriate to organizations expecting to become great mass movements and to appeal for majority electoral support. They have, however, continued those efforts directed against the US, and those stressing (a) the Communist Party's devotion to democracy, (b) its non-revolutionary attitude toward the locally established form of government, and (c) its independence, as an indigenous Party organization, vis-a-vis Moscow. Most of the energies freed by de-emphasizing the Party as such, appear, however, to have been channeled into preparations for espionage and sabotage (including arming for uprisings in and guernilla attacks upon areas and facilities of strategic importance as well as continuing the clandestine life of the Party in the event of suppression.

- 5. The present propaganda line, save for its anti-US emphasis, largely parallels the Communist Party line during World War II, when it supported all local governments that were aiding the Soviet war effort. The Communists are at this time apparently ready to support any local governments that oppose the "imperialist" US, and to attack any local government that serves US interests. The present line, in short, apparently rests on the assumption that the USSR's objectives in Latin America can be achieved with the Party's present following, and that it would be unwise to risk alienating that following, or to invite suppression by advocating the overthrow of existing governments. While a show-down with the anti-Communist Latin American Governments is thus indefinitely postponed,* it is clear that this policy has not been successful in avoiding anti-Communist action by various Latin American Governments, and that, with the possible exception of Costa Rica, no Latin American Government is today publicly cooperating with the Communists.
- 6. To organize and retain control of a subversive political movement in a geographically remote area is, even under the most favorable conditions, a difficult enterprise and one that calls for both trained personnel and large expenditures of funds. In the course of the months since April 1947 the USSR has nevertheless withdrawn much of its experienced diplomatic personnel from Latin America, and through the same period it has become increasingly evident that no considerable sums of money are being spent on Communist activities in the area. The one exception among the other American Republics in this respect appears to be Argentina, where the available data point to continued generous investment of both men and money. (Argentina, alone among the Latin American Governments, is to some extent in a position to oppose US leadership in Hemisphere affairs. The USSR therefore has a reason for treating Argentina as qualitatively different from the other countries.) During the months since April 1947, moreover, there have been increasingly numerous reports of internecine disputes, struggles for control, and disputes in Latin America's Communist Parties. A peculiar

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The Communist-led strike in the Chilean coal fields in October 1947 does not appear to have been intended by the Communists as a show-down, although President González Videla of Chile alleged that such was the case.

feature of the reports is that the sources from which they were obtained invariably offer only the most superficial guesses regarding the cause of these difficulties, which are without precedent in the recent history of Latin American Communism. Perhaps because of concern over the issues between the contending parties, none of the sources has yet seen the probable connection between the lapse of discipline within the parties on one hard and the USSR's niggardliness with men and money on the other hand, one unavoidable result of which would, naturally, be a relaxation of control from Moscow.

- 7. Under such dircumstances, the Communist Parties in the other American Republics are unlikely to increase their following or extend their influence during the months ahead. It is, indeed, possible that they are entering upon a period during which they will actually lose both membership and influence. But this does not mean, in any sense, that the Soviet Union's basic objectives in Latin America are likely, within the near future, to become unrealizable, or that it does not still lie within the Soviet Union's power, by resuming large-scale expenditures of men and money, to reverse the present trend. Rather it is estimated that, so long as it retains its grip on the strategic sections of the Latin American labor movement, the USSR has good reason to regard that trend as favorable. (The Communists do face, however, increasing opposition to their control of key Labor groups, and may find it desirable at some point to revise their tactics in order to maintain their position.) National authorities .1 the several countries are unlikely to maintain strict surveillance over a Communist movement, which is notoriously weakened by internal dissension. For espionage purposes, moreover, a Communist movement split into many factions independent vis-a-vis one another would not only be extremely difficult to liquidate in a moment of crisis, but also might well, through varied appeals, reach sectors of the population that could not otherwise be mobilized for Communist purposes. There is, therefore, some reason to believe recent unconfirmed reports that the USSR is encouraging the present fissiparous tendency in the Ltin American Communist movement. Furthermore, there is evidence that the USSR has given express orders for the creation of a whole new series of estensibly non-Communist political and cultural groups. These groups, operating under secret Communist control, would make their appeal to persons in general sympathy with the declared objectives of the Communist Party who have nevertheless opposed it hitherto.*
- 8. The defeat of Soviet espionage in Canada in 1946, though partial, could hardly have failed to impress Soviet planners with the necessity of reconsidering the whole problem of the comparative value of the traditional Communist Parties, upon which reliance had been placed with such disastrous results in Canada, and of "front" organizations, which might well have provided a more effective cover for clandestine operations. The emerging new pattern of Communist activities in Latin America may, therefore, have been influenced by the lessons learned in Canada. If so, however, a natural inference would be that in Latin America today, as in Canada in connection with the atomic bomb, clandestine operations are, or are about to become, the order of the day.

^{*} In this connection the USSR has placed particular emphasis on winning over the persons of Slavic descent now resident in Latin America. The Slavic colony in the River Plate area is unusually large and has been the target of extensive organization under Soviet direction.

9. It is estimated that the Communist nonpolitical organization in Latin America (that is, the organization for other than straight political Party purposes) has already proceeded so far and so effectively that in the event of war with the US, the USSR could a) receive an extensive flow of reasonably accurate information from Latin America, b) reciuit sobotage agents, and c) by merely giving the necessary orders. paralyze the econo es of two countries (Chile and Cuba) that are normally important US suppliers. Thus the USSR could deny to the US, through at least the crucial early months of the war, the militarily important copper and sugar these two countries would otherwise contribute to the US war effort. It is further estimated that in the remaining Latin American countries (excepting only Argentina, Mexico. Paraguay, the Dominican Republic, Honduras, and El Salvador), Communist undercover penetration of strategic spheres of the various economies is already such as to permit the USSR, by merely giving the necessary orders a) to withhold from the US at least, for a limited period, its normal peacetime flow of strategic raw materials from Latin America, b) to precipitate, in the several Latin American countries, economic crises that would oblige the US to choose between fiscally expensive programs of emergency aid on the one hand, and the politically expensive step of denying such aid on the other hand. Specifically, the USSR could today interrupt the flow of Latin American supplies of tin, quartz crystal, natural rubber, quinine, and oil to the US.

16. CIA estimates that none of the Latin American countries, again excepting Argentina, Mexico, Paraguay, the Dominican Republic, Honduras, and El Salvador (plus, perhaps, Peru), is today capable, by its own governmental action, of preventing the success of a Communist attempt either to a) interrupt the flow of supplies to the US, or b) disrupt the domestic economy of the country involved.

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ENCLOSURE "A"

DISSENT OF THE INTELLIGENCE ORGANIZATION DEPARTMENT OF STATE

The Intelligence Organization of the Department of State finds itself unable to concur completely in this estimate. Certain internal inconsistencies and a failure to distinguish sufficiently between long-range Soviet objectives and short-range tactics, especially as applied generally to the various Latin American countries, tend to establish an erroneous concept of the mechanics and strength of Soviet influence in Latin America.

The paper insufficiently distinguishes between assumed broad Soviet objectives deduced from the theoretical logic of the situation, and the varying tactical objectives of local Communist Parties. This confusion conceals the facts that Latin America for the present seems to be low on the Soviet target list, and that local Communist activities seem largely to be conditioned now by local economic and political situations and personal ambitions.

In particular, it is logical deduction from standard Kremlin tactics rather than reasoning from available evidence to suggest that

- a. The USSR has adopted new priorities or strategy in its policy towards Latin America.
- b. Tendencies of Communist Parties to split up have recently increased.
- Undercover activities of Communists have increased (except in Brazil where the Party has been outlawed).

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ENCLOSURE "B"

DISSENT OF THE OFFICE OF NAVAL INTELLIGENCE, NAVY DEPARTMENT

The Office of Naval Intelligence is unable fully to concur in the findings of this paper. It is felt that the subject has not yet been thoroughly explored and that, in this paper, too much emphasis is placed on factors presumably working towards the realization of Soviet objectives and little or none placed on those counter-forces whose present and potential ability is patent. While it is agreed that the Soviet objectives in Latin America are to deny strategic materials to the US in time of war, ONI nonetheless believes that the realization of this objective is remote if not impossible. In other words, the real or latent danger from Communism in Latin America, as expressed in this paper, seems exaggerated.

In considering Communism in Latin America it is believed that some attention should be paid to the obvious distinction between the European Communist and the Latin American Communist. In the latter case, the majority of the adherents are not die-hard Marxists but people of a very low economic, social, and cultural scale. These would be the first to desert the Party banner in the event of war between the US and USSR and go along with the masses who would probably rally around each government. Naturally there would be some who would attempt and commit acts of sabotage, but such acts would probably be speradic and more in the nature of an irritant which can be liquidated rather than a persistent serious threat.

The Office of Naval Intelligence would give in this paper consideration to the forces working against Soviet objectives in Latin America such as the Catholic Church; the ultra-conservative armed forces, the real key to civilian power; the influence of the US and other western powers; the Hemispheric Defense Plan; and the economic dependence of Latin America on the US, especially in time of war, which means that the US would greatly influence the internal and foreign policies of the various countries.

It is not believed by the Office of Naval Intelligence that the Soviets will place emphasis on espionage and the collection of intelligence, but rather on sabolage in the form of strikes, etc. It is a matter of public record what strategic materials are produced in Latin America and the Soviets should assume that we will take the maximum output. It is doubted that the Communists in Cuba, in time of war, could paralyze the economic life of that country. Cuba is too close geographically and too economically mortgaged to the US to permit this to happen.

For reasons mentioned above, the Office of Naval Inte. igence cannot envisage Communist armed uprisings or guerrilla attacks on areas of strategic importance in Latin America. Isolated acts of strategic importance could be expected but certainly no really concerted action.

The Office of Naval Intelligence is not prepared at this time to agree that none of the Latin American countries (excepting Argentina, Mexico, the Dominican Republic, Paraguay, Honduras, El Salvador and, possibly, Peru) is today capable of preventing the success, by its own governmental action, of a Communist attempt either to (a) interrupt the flow of supplies to the US, or (b) to disrupt the domestic economy

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of the country involved. The tenor of the CIA paper is based on the assumption of an inevitable conflict in the unforseeable future between the Soviets and the capitalist world, so the ability or inability of the Latin American nations today to cope with the situations appears not to bear on the problem. If anything, the passage of time might well increase the effectiveness of the various nations to put down Communist disorders in their respective countries, at least in this Hemisphere.

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ORE 59-49

MILITARY BUDGETS OF SELECTED COUNTRIES .

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6.	Canada				Pakistan
7.	Chile			24	Poland
8.	Czechoslovakia			× 25.	Portugal
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10.	Egypt		7	27.	Spain
	Finland				Sweden
12.	France			29.	Switzerland
13.	Greece			30.	Turkey
14.	Hungary			31.	Union of South Africa
15.	India				United Kingdom
16.	Ireland			33.	USSR
17.	Italy			34.	Yugoslavia

^{*}Note of caution: The ratio between military expenditures and total national government expenditures should not be used as a basis for comparison between one country's military expenditures and those of another. Division of governmental responsibilities between national authority and district or local nutbority varies widely from country to country and there are wide differences in the extent of government ownership, operation, and control of production facilities. Reflection of these differences in the relative size of national budgets renders comparisons between countries, made on the basis of such ratios, illogical and misleading.

Note: The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report. It is based on information available to CIA as of 20 June 1949.

TABLE 1.
ARGENTINA

	FISCAL		т Ворси Ввинии т 1949		IMMEDIATELY PRECEDING FISCAL YEAR BEGINNING: 1 JANUARY 1948				
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of paper pesos)	Equiv. in US Dollars' (millions)	% of Total National Govt, Expend.	% of National In-	Expenditures in Na- tional Currency Units (millions of paper peace)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	
Army	551.6	130.4	6.5		476.0	112.5	6.8		
Navy	240.6	56.9	2.9		283.4	67.0	4.1		
Air	184.7	43.7	2.2		206.3	48.8	2.9		
Other Military Expenditures	3.905	73.2	3.7		540.0	127.5	7.7		
Total *	1,286.7	304.2	15.3		1,505.7	355.9	21.5		

'Conversion rate: 4.23 pesos=\$1 (Basic Selling Rate)

*Total National Government Expenditures (in US Dollars) (excluding expenditures under Five-Year Plan)

Fiscal year beginning: 1 January 1949—\$1,991.1 million (budgeted) Fiscal year beginning: 1 January 1948—\$1,655.0 million (budgeted)

Budgeted.

. For national defense. The Argentine definition of national defense includes non-military projects, such as construction of bridges and highways.

*Figures on national income for 1948 and 1949 are not available.

'The total amount available for military expenditures is not reflected in the above figures, because expenditures for national defense under the Five-Year Plan are kept secret by the government. Also, there is no indication that additional credits of 526.7 million pesos for military construction authorized in August 1948 have been incorporated in the budget. Both the army and navy engage in public works projects, and, wherever possible, these expenditures have been omitted. Expenditures for Federal Police and National Gendarmeric are not included.





TABLE 2. AUSTRALIA

		OST RECE CAL YEAR 1 JULY	BEGINNE		IMMEDIATELY PRECEDING FISCAL YEAR BEGINNING: 1 JULY 1947				
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of £ A)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Currency Units ' (millions of £.A)	Equiv, in US Dollars' (mullions)	% of Total National Govt, Expend.	% of National In-	
Army	16.1	51.6	3.3		28.1	89.9	6.2	2.1	
Navy	18.3	58.7	3.7		18.4	58.9	4.1	1.4	
Air	15.7	50.2	3.2		18.4	58.9	4.1	1.4	
Other Military Expenditures	10.4	33.3	2.1		6.7	21.4	1.4	5	
Total	60.5	193.8	12.3		71.6	229.1	15.8	5.4	

^{*}Conversion rate: Year beginning 1 July 1948, 1 Australian £=\$3.205 (Official Selling Rate)
Year beginning 1 July 1947, 1 Australian £=\$3.200 (Official Selling Rate)

Fiscal year beginning: 1 July 1948—\$1,579.4 million (budgeted)
Fiscal year beginning: 1 July 1947—\$1,447.9 million (actual)

^{*}Total National Government Expenditures (in US Dollars)

^{*}Actual

^{&#}x27; Not available.

Based on national income of £ A1,598 million for fiscal year beginning 1 July 1947.

MAIOTER TABLE 3.

	Most Fiscal	ST RECENT	MOST RECENT BUDGET FISCAL YEAR RECENTAGE I JANUARY 1949	NG:	Типети	YEAR BEGINNING 1 JANUARY 1948	PRECEDING I BEGINNING: NUARY 1948	FISCAL
Military Budget Expensiones	Expenditures in Na- tional Currency Units (millions of Belgian francs)	Equiv. in US Dollars' (millions)	% of Total National Govt, Expend.*	% of National In- come*	Expenditures in Na- tional Currency Unite* (millions of Belgian francs)	Equiv. in US Dollars: (millions)	% of Total National Govt. Expend.	% of National In-
Army	7,059.1	160.6	8.0	pa 13	4,094.6	1.08	5.6	1/7
Navy	.85,0	1.9	2		, 0'6.11	5	02	ė
Alr.			-					
Other Military								
Expenditures	1,240.9	28.2	1.8	Ŀn	732.2	16.7	5	0.3
Total	8,385.0	190.7	11.7	E	€,936.8 .	112.3	6.8	20

'Conversion rate: 43.96 Belgian francs-\$1. (Official Selling Rate)
'Total National Government Expenditures (in US Dellars)
Fiscal year beginning: 1 January 1949.—\$1,635.0 million (budgeted)
Fiscal year beginning: 1 January 1948.—\$1,657.2 million (budgeted)

Budgeted.

Included in the Ministry of Communications' budget.
 Included in army budget.

budget) 370 million francs.

'For Gendarmerie. *Includes Gendarmerie 870.9 million francs; Congo Force Publique (From Ministry of Colonies

*Includes part of navy budget, exact amount unknown.
*Based on 243.9 billion francs national income in 1948 and estimate of 255 billion francs national income in 1949.



TABLE 4. BRAZIL

	200	CAL YEAR	BEGINNI RY 1949	9-3-1	YEAR BEGINNING FISCAL YEAR BEGINNING: 1 JANUARY 1948				
MILITARY BUDGET . EXPENDITURES	Expenditures in Na- tional Currency Units (millions of cruzeiros)	Equiv. in US Dollars' (millions)	% of Total National Govt, Expend."	% of National In-	Expenditures in Na- tional Currency Units' (millions of cruzeiros)	Equiv. in US Dollars' (millions)	% of Total National Gort, Expend.	% of National In-	
Army	2,827.5	151.0	14.6		2,452.5	131.0	16.8		
Navy	1,428.1	76.3	7.4		1,155.4	61.7	e.ŕ		
Air	1,480.8	79.1	7.6		1,298.1	69.3	8.9		
Other Military Expenditures	2.9	.2	.01		2.9	.2	.02		
Total '	5,739.3	306.6	29.61		4,908.9	262.2	33.62		

^{*}Conversion rate: 18.72 cruzeiros=\$1 (Official Selling Rate)

^{&#}x27;Total National Government Expenditures (in US Dollars) Fiscal year beginning: 1 Jan 1949—\$1,034.7 million (budgeted) Fiscal year beginning: 1 Jan. 1948—\$779.7 million (budgeted)

^{*}Budgeted.

^{&#}x27;Includes Joint General Staff and National Security Council
'No acceptable figures on Brazil's national income later than 1944.

Quasi-military forces not included.

TABLE 5. BULGARIA

	FISCAL YEA	ENT BUDGET IN BEGINNING: JARY 1949	Y	CEDING I NNING: r 1948			
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of leva.) Equiv. in US Dollars' (millions)	% of Total National Govt. Expend. % of National In-	Expenditures in Na- tional Currency Units (millions of leve)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	

Army

Navy

Air

Other Military Expenditures *

Total *

11,904 *

7.5

9,995 *

8.3

Fiscal year beginning: 1 January 1949—151,981 million leva (budgeted) Fiscal year beginning: 1 January 1948—121,000 million leva (budgeted)

*Distribution not available; chiefly army. Services rendered by other Ministries to the armed forces are not fully reflected in defense budgets.

*It is probable that additional amounts will be made available to the armed forces before the end of 1949.

Budgeted. Does not include supplementary funds allocated to Ministry of Defence which are estimated to bring total military expenditures for 1948 to approximately the same level as shown in budget for 1949.

A valid dollar equivalent has not been established because of the substantial disparity between the official conversion rate and the actual purchasing power of the depreciated leva. A conversion rate which reflects the actual purchasing power of the leva cannot readily be determined.

^{*}Total National Government Expenditures (Includes state investments, and expenditures for national and local governments, and state enterprises. While reparations deliveries are not mentioned as such in the budget, it is believed that they represent a part of total governmental expenditures):

^{*} Not available.

^{*}Certain allocations to the Ministries of Interior, Construction & Roads, and Communications, a substantial portion of which is for "security" organs, amounted to 12,517 million leva in 1949 and 5,002 million leva in 1948. These allocations are not regarded in this report as military expenditures because breakdown is not available.



TABLE 6. CANADA

		ST RECEN	BEGINNIN	Isoor	IMMEDIATELY PRECEDING FISCAL YEAR BECOMMING: I APRIL 1948					
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of Canadian \$)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National Income	Expenditures in Na- tional Currency Units (millions of Canadian ‡)	Equiv. in US Dollars '	% of Total National Govt. Expend.	% of National In-		
Army	147.7	146.2	6.7		101.2	100.8	4.6	.8		
Navy	82.1	81.8	3.7	,	55.2	54.8	2.5	A		
Air	169.3	168.6	7.6		100.9	100.2	4.6	a.		
Defence Research	21.1	21.0	.9		19.7	19.6	.9	.1		
Other Military										
Expenditures '	2.5	2.5	.1		2.0	2.0	.1	.02		
Total	422.7	420.1	19.0		279.0	277.4	12.7	2.12		

. 'Conversion-rate: Can\$1.005:::US\$1.00 (Official Selling Rate)

'Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 April 1949—\$2,206 million (budgeted) Fiscal year beginning: 1 April 1948—\$2,182 million (actual)

'Actual.

Defence Research is fourth service in Department of National Defence, on same level as other three services.

*This amount represents Defence Department overhead, grants to colleges, military asso-

ciations, etc.

'Includes Can\$62,500,000 not to be voted as part of budget estimate of Can\$375,000,000 but available to services as commitment authority. Budget will not be debated and voted upon until a new Parliament is convened late this summer or early in the fall,

*Based on national income of Can\$12,700 million for calendar year 1948.

TABLE 7.

CHILE

	FISCAL	RECEN YEAR I	Весимо	DYG;	IMMEDIATELY PRECEDING FISCAL YEAR BEGINNING: 1 JANUARY 1948*				
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of peace)	Equiv. in US Dollars' (millions)	% of Total National Govt, Expend.	% of National In-	Expenditures in Na- tional Currency Units (millions of pesos)	Equiv. in US Dollars (millions)	% of Total National Govt. Expend.	% of National In-	
Army .	1,110.0	35.7	9.9		989.2	31.8	9.4		
Navy	877.3	28.2	7.È		813.2	26.1	7.8	÷	
Air	359.6	11.6	3.2	*	332.8	10.7	3.2		
Other Military Expenditures '							ř		
Total	2,346.9	75.5	20.9		2,135.2	68.6	20.4		

^{: &}quot;Conversion rate: 31.10 pesos=\$1 (Official Selling Rate)



^{*}Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 January 1949—\$362.0 million (budgeted)
Fiscal year beginning: 1 January 1948—\$336.1 million (budgeted)

Budgeted.

^{*}Recommended 31 August 1948. Breakdown not available for budget as approved by Congress 29 Dec. 1948.

[&]quot;As approved by Congress, 31 December 1947. Additions to regular budget include 50,000,000 sesos for Armed Forces housing and bonus of 1 month's salary for Armed Forces.

^{&#}x27;Not available.

^{&#}x27;The Carabineros, a semi-military organization, are under the administration of the Department of Interior and budget figures are not available.



TABLE 8. CZECHOSLOVAKIA

	Fiscat	TRECEN YEAR I JANUAR	BECOMNO		Immediately Preceding Fiscal, Year Beginning: 1 January 1948				
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units* (millions of crowns)	Equiv. in US Dollars (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Currency Units* (millions of crowns)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	
Army					6,872.0		10.2	3.2	
Navy						`	***		
Air .					395.0		0.6	0.2	
Other Military Expenditures *	٠,								
Total	8,359.0		9.4	. 3.6	7,267.0		10.8	3.4	

¹A valid dollar equivalent has not been established because of the substantial disparity between the official conversion rate and the actual purchasing power of the depreciated crown. A conversion rate which reflects the actual purchasing power of the crown cannot readily be determined.

Fiscal year beginning: 1 January 1949—89,277 million crowns (budgeted)
Fiscal year beginning: 1 January 1948—67,056 million crowns (budgeted)

*Budgeted.

*Distribution not available.



^{*}Total National Government Expenditures (Includes state investments, and all expenditures for national and local governments, and state enterprises):

^{&#}x27;Services rendered by other Ministries to the Armed Forces are not fully reflected in the defense budget.

^{*}Based on estimated national income of 233 billion crowns in 1949 and 213 billion crowns in 1948.

^{&#}x27;Allocations to the Ministry of Interior, a substantial portion of which is for the National Security Corps (a militarized police force), amounted to 6,758 million crowns in 1949 and 5,723 million crowns in 1948. These allocations are not regarded in this report as military expenditures because breakdown is not available.



TABLE 9.

DENMARK

		MOST RECENT BUDGET FISCAL YEAR BEGINNING: 1 APRIL 1949				YEAR BECHNING FISCAL YEAR BECHNING: 1 APRIL 1948				
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Ourrency Units (millions of Eroner)	Equiv, in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Ourrency Units' (millions of Proner)	Equiv. in US Dollars (millions)	% of Total National Govt. Expend.	% of National Income		
Army	223	46.4	10.8		227.1	47.3	12.5	1.4		
Navy	`81	16.8	3.9		81.5	17.0	€.5	.5		
Air										
Other Military Expenditures					-					
Total	804	63.2	14.7		308.6	64.3	17.0	1.9		

^{*}Conversion rate: 4.81 kroner=\$1 (Official Seiling Rate)

*Total National Government Expenditures (in UE Dollars)

Fiscal year beginning: 1 April 1949—\$428 million (budgeted)

Fiscal year beginning: 1 April 1948—\$377 million (actual)

^{*}Actual.

^{&#}x27;Not available.

^{*} National income for 1948-\$3,289 million.



TABLE 10.

. EGYPT

		ST RECEI AL YEAR 21 MARC		IMMEDIATELY PRECEDING FISCAL YEAR BEGINNING:				
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of £E)	Equiv. in US Dollars 1 (millions)	% of Total National Govt. Expend.	% of National Income*	Expenditures in Na- tional Currency Units (millions of £E)	Equiv. in US Dollars (millions)	% of Total National Govt, Expend,	% of National Income
Army	42.0	173,3	22.9		9	-		
Navy	.8	3.3	A					
Air	3.0	12.4	1.7					
Other Military Expenditures	2.0	8.3	1.1				K	
Total	47.8	197.3	26.1 *		15			

Conversion rate: 1 Egyptian £=\$4.127 (Official Selling Rate)

'Total National Government Expenditures (in US Dollars)

Not available.

Includes expenditures for Royal Frontier Corps, Coast Guard, and Territorial Force,

Fiscal year beginning: 21 March 1948—\$755.8 million (budgeted).

*Available information covers 10 months' period ended 20 March 1948 and therefore is not comparable with most recent budget.

^{*} This percentage is based on budgeted, rather than actual, total government expenditures. If expenditures from reserves over and above the budget were considered, this percentage would be approximately 21.5%.



TABLE 11.

	Fisca	MOST RECENT BURGET FISCAL YEAR BEGINNING: 1 JANUARY 1949				Immediately Preceding Fiscal Year Belinning: 1 January 1948			
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Ourrency Units (millions of Finks)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National Income	Expenditures in Na- tional Currency Units' (millions of Finks)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National Income	

Army

Navy

Air

Other Military Expenditures *

Total '

4,011

4.1

0.9

3,009

4.2

0.9

A valid dollar equivalent has not been established because of the substantial disparity between the official conversion rate and the actual purchasing power of the depreciated finnmark. A conversion rate which reflects the actual purchasing power of the finnmark cannot readily be determined.

*Total National Government Expenditures (Includes state investments and expenditures for state enterprises. While reparations deliveries are not mentioned as such in the budget, it is

believed that they represent a part of total governmental expenditures);

Fiscal year beginning: 1 January 1949—98,505.8 million finnmarks (budgeted)
Fiscal year beginning: 1 January 1948—72,445.0 million finnmarks (budgeted)

*Budgeted.

*Based on estimated national income of 437.5 billion finnmarks in 1949 and 350.0 billion

finnmarks in 1948.

*Allocations to the Ministry of Interior, a portion of which is for "security" organs, amounted to 4,678 million finnmarks in 1949 and 3,783 million finnmarks in 1948. These allocations are not regarded in this report as military expenditures because breakdown is not available.

*Distribution not available; chiefly army. Services rendered by other Ministries to the armed forces are not fully reflected in defense budgets.

RESTRICTED



TABLE 12.

FRANCE

	MOST RECENT BUDGET FISCAL YEAR BELLINNING: 1 JANUARY 1949				IMMEDIATELY PRECEDING FISCAL YEAR BEGINNING: 1 JANUARY 1948				
MULTARY BUDGET EXPENDITURES	Expenditures in Na- tional Ourrency Units (billions of france)	Equiv. in US Dollars' (millions)	% of Total National Gort, Expend, on Our- rent Account.	% of National Income	Expenditures in Ma- tional Currency Units (billions of france)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend. on Cur- rent Account.	% of National	
Army	116	386.6	8.7		88.9	296.3	8,9	1.6	
Navy	59	196.7	4.4		45.1	150.3	4.5	.8	
Air	71	236.7	5.3		54.5	181.7	5.5	1.0	
Other Military Expenditures	139	463.3	10.4	6	113.1	377.0	11.3	2.1	
Total	385 '	1,283.3	28.8 (19.9)		301.6	1,005.3	30.2 (18.5)*	5.5	

*Conversion rate: 300 francs=\$1

'Total National Government Expenditures (in US Dollars)

Modernization &

Current

Reconstruction

Fiscal year beginning: 1 January 1949 (est.) \$4,447.0 million \$2,000.0 million Fiscal year beginning: 1 January 1948 (budgeted) \$3,329.0 million \$2,103.0 million

*Budgeted. Based on law of 27 August 1948 setting military budget for 1948.

"Not available.

Based on Embassy, Paris, estimate for 1948: 5,500 billion francs.

Represents combined expenditures for Overseas France and Common Services. For 1949 it is estimated that 76 billion out of a possible 107 billion francs total for Overseas France will be for operations in Indochina alone.

'Military budget for 1949 as presented to Assembly for debate on 9 June 1949.

It is estimated that additional expenditures authorized in 1948 will bring actual military total to 368 billion francs.

*Represents percentage of sum of total current budget and expenses for modernization and reconstruction.



TABLE 13.

OREECE

	MOST RECENT BUDGET FISCAL YEAR BEHANING: 1 JULY 1948				YEAR BEGINNING: 1 April 1947			
MILITARY BUDGET EXPENDITURES	Expenditures in Ma- tional Currency Units (billions of drachmas)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Currency Units (billions of drachmas)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend. % of National In-	30
Army	680	68.0	17.3					
Navy .	75	75	1.9					
Alr -	81	8.1	2.1					
Other Military Expenditures	1,176 *	117.6	29.8			*		
Total	2,012	201.2	51.1		1,324 *	179.0	39.5	

^{*}Conversion rate: Fiscal year I July 1948-30 June 1949-10,000 drachmas=\$1 (approx.) 15 Months 1 April 1947-30 June 1948-7,397 drachmas=\$1 (average).

^{&#}x27;Total National Government Expenditures (in US Dollars)

Fiscal year: 1 July 1948-30 June 1949 \$394.0 million (budgeted) 15 Months: 1 April 1947-30 June 1948 \$452.9 million (approx.)

Budgeted.

Does not include US military aid.

^{*}Includes 202 (billion drachmas) for Gendarmerie, 805 for refugee relief and 169 for family allowances and miscellaneous.

^{*}Covers 15-month period 1 April 1947-30 June 1948. Greek fiscal year changed to begin 1 July.

Not available.



TABLE 14.

	FISCAL	MOST RECENT BUDGET FISCAL YEAR BEGINNING: 1 JANUARY 1949					YEAR BEGINNING FISCAL YEAR BEGINNING: 1 AUGUST 1947			
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of forints)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Currency Units' (millions of forints)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-		

Army

Navy

Air.

Other Military Expenditures'

	(1,153.0 -	10.0	5.1			
Total	347.0	3.0	1.6	-		
		F CHARLES	-			
	1,500.0	13.0	6.7	150.5	2.0	0.

A valid dollar equivalent has not been established because of the substantial disparity between the official conversion rate and the actual purchasing power of the depreciated forint. A conversion rate which reflects the actual purchasing power of the forint cannot readily be determined.

Total National Government Expenditures (Includes state investments, and all expenditures for national and local governments, and state enterprises. While reparations deliveries are not mentioned as such in the budget, it is believed that they represent a part of total governmental expenditures.)

Fiscal year beginning: 1 January 1949—11,552.7 million forints (budgeted) Fiscal year beginning: 1 August 1947—7,553.0 million forints (budgeted)

Budgeted. Additional allocations are believed concealed under categories other than military.

*Distribution not available; chiefly army. Services rendered by other Ministries to the Armed Forces are not fully reflected in defense budgets.

'As announced by Hungarian Government,

*Additional estimated concealed under categories other than military.

Allocations to the Ministry of Interior, a substantial portion of which is for "security" organs, amounted to 450.4 million forints in 1947/48 and 678.7 million forints in 1949. These allocations are not regarded in this report as military expenditures because breakdown is not available.

*Based on estimated national income of 22,400 million forints in 1949 and 19,029 million forints in 1948.

*Last full preceding fiscal year. Fiscal year changed to calendar year beginning 1 January 1949; a special budget covered the period from 1 August to 31 December 1948. Total actual spending for fiscal year beginning 1 August 1947 reported at 9,108 million forints, but since proportion for military not shown, the planned budget figures (total 7,553 million forints) are used for this study.

TABLE 15,

INDIA :

		AL YEAR	BECONNI			TELY PRI TEAR BECK 1 APRIL	MNING:	Fiscal	
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Oursency Units (millions of rupees)	Equiv. in US Dollars to (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Currency Units (millions of rupees)	Equiv. in US Dollars (millions)	% of Total National Govt, Expend,	% of National In-	
Army	1,228.8	370.3	21.8	1	821.3	247.5	9.3		
Navy	82.5	24.9	1.5		47.1	14.2	0.5		,
Air	128.4	38.7	2.3		93.3	28.1	1.1	-	
Other Military Expenditures	32.0 *	9.6	.5		1,385.7	417.6*	15.7		
Total	1,471.7	443.5	26.1		2,347.4	707.4	26.6		

^{*}Conversion rate: 3.318 rupees=\$1 (Selling rate)

Fiscal year beginning: 1 April 1949—\$1,698.0 million (budgeted)
Fiscal year beginning: 1 April 1948—\$2,657.0 million (actual)

^{*}Total National Government Expenditures (in US Dollars)

^{*}Actual.

^{*} Not available.

^{*}Includes only expenses charged to capital outlay. Expenses for supplies and stores are included in the budget for each service.

^{*}Includes expenses charged to capital outlay and Rs. 469.1 million (\$141.4 million) for supplies and stores.



TABLE 16. IRELAND

		MOST RECENT BUDGET FISCAL YEAR BEGINNING: 1 APRIL 1949				Immediately Preceding Fiscal Year Beginning: 1 April 1948			
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units* (millions of Irlah £)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Currency Units' (millions of Lish £)	Equiv. in US Dollars. (millions)	% of Total National Govt. Expend.	% of National In-	
Army		٠.			3.454	13.911	€.8	-	
Navy					.147	.592	.2	₹.	
Alr :					.073	.294	1		
Other Military Expenditures				. i.	96				
Total	3.705	14.922	5.1		3.674	14.797	5.0		

^{&#}x27;Conversion rate: Irish f=\$4.0275 (Official Selling Rate)

Fiscal year beginning: 1 April 1949—\$294.5 million (estimated)
Fiscal year beginning: 1 April 1948—\$289.7 million (actual)



^{&#}x27;Total National Government Expenditures (in US Dollars)

^{*} Actual.

^{&#}x27;It is not yet known in what proportions army, navy and air share in the military budget for the fiscal year beginning 1 April 1949. The proportions will probably be close to those of the preceding fiscal year which were 94% for army, 4% for navy, and 2% for air.

^{*}Breakdown of total military expenditures is based on percentages allocated in budget to army, navy, and air for year beginning 1 April 1948.

Army expenditure contains some items for Air Corps, which cannot be segregated.

^{&#}x27;National income data not available since 1944.

TABLE 17.

ITALY .

	FISCAL	MOST RECENT BUDGET ' IMMEDIATELY PRECEDING I FISCAL YEAR BEGINNING: YEAR BEGINNING: 1 JULY 1948 1 JULY 1948						
MILITARY BUDGET EXPERIMITURES	Expenditures in Na- tional Ourrency Units (millions of line)	Equiv. in US Dollars' (millions)	% of Total National Gort, Expend.	% of National In-	Expenditures in Na- tional Ourrency Units (millions of lire)	Equiv. in US Dollars ' (millions)	% of Total National Govt. Expend.	% of National In-
Army	142,256.5	247.4	9.7	2.4	129,897.2	225.5	8.5	2.4
Navy	60,029.0	104.4	4.1	1.0	54,516.3	. 94.5	3.5	1.0
Air	53,536.4	93.1	3.6	.9	35,407.5	61.6	2.3	æ
Other Military Expenditures	45,506.3	. 497	3.1	8	42,460.2	73.5	2.8	.8
Total	301,328.2	524.0	20.5	5.1	262,281.2	456.3	17.1	4.8

^{*}Conversion rate: 575 lire=\$1

^{*}Total National Government Expenditures (in US Dollars):

Fiscal year beginning: 1 July 1949—\$2,556.5 million (budgeted) Fiscal year beginning: 1 July 1948—\$2,660.7 million (actual)

[&]quot;Actual.

^{*}Total defense expenditures taken from recent data on proposed budget, subject to Parliamentary approval.

^{*}Based on national income (in US Dollars):

Year beginning 1 July 1949 (est.)—\$10,130 million. Year beginning 1 July 1948 (est.)—\$ 9,420 million.

^{*}Of which, 45,399.0 lire for Carabinieri, 107.3 lire for general purposes.

Of which, 42,367.7 lire for Carabinieri, 92.5 lire for general purposes.



TABLE 18. LUXEMBOURG

	Fiscal	YEAR	ит Воро Веспи ит 1949	kT ING:	Y . Y	IMMEDIATELY PRECEDING FISCAL YEAR BEGINNING: 1 JANUARY 1948			
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of Luxem- bourg francs)	Equiv. in US Dollars ' (millions)	% of Total National Gort. Expend.	% of National In-	Expenditures in Na- tional Ourrency Units (millions of Luxem- bourg france)	Equiv. in US Dollars (millions)	% of Total National Govt. Expend.	% of National In-	
Army Navy Air	None None			•	None None	1.1	1.5	0.6	
Other Military Expenditures Total	124.2 4	2.8	3.3		44.0 ° 94.0	1.0 ` 2.1	1.3 2.8	0.4 1.0	

^{*}Conversion rate: 43.96 Luxembourg francs=\$1. (Official Selling Rate)

*Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 January 1949—\$84.37 million (budgeted)

Fiscal year beginning: 1 January 1948-\$76.21 million (budgeted)

Budgeted.

*Provisional. No separate figure for army. Includes army, gendarmeric, and police.

Not available.

*Includes: Gendarmerie-fr. 30 million and State Police-fr. 14 million.

TABLE 19.

MEXICO

	Frac	al Year	NT BUDG BEGINN RY 1949		Door	YEAR B	PRECEDIN SCHWING PART 194	3:
Military Budget Expenditures	Expenditures in Na- tional Currency Units (millions of peacs)	Equiv. in US Dollars 1 (millions)	% of Total National Gort, Expend.	% of National In-	Expenditures in Na- tional Ourrency Units' (millions of peecs)	Equiv. in US Dollars' (millions)	% of Total National Govt, Expend.	% of National In-
Army	262.0	32.7	10.3		240.0	42.1	10.4	
Navy* Air*	69.3	8.7	2.7	*	70.5	12.4	3.1	
Other Military Expenditures*	18.2	2.3	0.7		17.3	3.0	8.0	
Total	349.5	43.7	13.7		327,8	57.5	14.2	

* Conversion rate:

1949-8.00 pesos=\$1 (Approximate average selling rate)

1948 [7 mos. at 4.86 pesos per dollar] or 5.70 average.

* Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 January 1949—\$318.9 million (budgeted)
Fiscal year beginning: 1 January 1948—\$404.0 million (budgeted)

*Budgeted.

*Includes small air arm. 34.7 million pesos of the 1948 budget and 30.4 million pesos of the 1949 budget were designated for port works.

Included in army.

*Military Industry (Some military education may be included under Ministry of Education budget. No figures available.)

Not available.



TABLE 20. NETHERLANDS

	Fre	OST RECE CAL YEAR I JANUA	Becom		Doce	YEAR BE	GINNING	•
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of guilders)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Currency Units* (millions of guilders)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-
Army	452,0	169.9	11.4	3.2	339.3	127.6	7.3	2.5
Navy	445.0	167.3	11,2	3.2	277.6	104.4	6.0	2.1
Air	- 0.88	33.1	2.2	0.6	46.2	17.4	1.0	0.3
Other Military Expenditures *				*		*		
Total	985.0	370.3	24.8	7.0	694.0	260.9	15.1	5.2

*Conversion rate: 2.66 guilders-\$1. (Official Selling Rate)

'Total National Government Expenditures (in US Dollars) .

Fiscal year beginning: 1 January 1949—\$1,490.0 million (budgeted)
Fiscal year beginning: 1 January 1948—\$1,725.5 million (budgeted)

Budgeted. Breakdown into army, air, and navy expenditures for 1948 is not believed to be entirely accurate and does not check with the total military expenditures for 1948, but is given here as an indication of the proportionate expenditures for the three services.

'The expense of the Royal Indies Army in Indonesia is not included in this budget, because it is supported by the Dutch administration in Indonesia and, probably to a very small extent, by the Ministry of Overseas Territories. The Netberlands naval, army and air force expenses in Indonesia are also partially met by the Dutch Indonesian budget. The fact that Indonesia has a large deficit with the Netherlands, which the latter covers by loans, may be attributed largely to Indonesian expenditures for support of Dutch military forces. Indirectly, the burden is borne by the Dutch Government.

*This figure does not include expenditures for the expansion of the ground forces in connection with the Five-Power Brussels Pact, for which an additional appropriation will be made.

*Based on 1949 national income of 13.94 billion guilders and 1948 national income of 13.42 billion guilders.

TABLE 21.

NEW ZEALAND

7 1		AL YEAR I APRIL	BEGINN			YEAR BEGINNING: 1 APRIL 1947					
MILITARY BUDGEY EXPERDITURES	Expenditures in Na- tional Ourrency Units (millions of 2 NZ)	Equiv. in US Dollars' (millions)	% of Total National Govt, Expend.	% of National	Expenditures in Na- tional Currency Units (millions of \$ NZ)	Equiv. in US Dollars' (millions)	% of Total National Govt, Expend.	% of National Income			
Army .	- 3.1	11.3	2.7		3.47	11.1	3.0	.8			
Navy .	2.5	9.1	2.2		1.7	5.5	1.5				
Alr *	6.1 *	22.3 4	5.3		4.2 *	13.5*	3.5	1.0			
Other Military Expenditures	3 10		,			x					
Total	11.7	42.7	10.2		937	30.0	8.0	2.2			

^{*} Conversion rate:

Year beginning 1 April 1948, 1 New Zealand 2=\$3.652 (Yearly average of Official Selling Rates)

Year beginning I April 1947, I New Zealand £=\$3.207 (Official Selling Rate)

*Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 April 1948-419.5 millions (budgeted)

: Fiscal year beginning: 1 April 1947-375.5 millions (actual)

"Actual.

*Includes £ NZ 1.47 million estimated expenditures for civil aviation,

*Includes £ NZ 0.54 million actual expenditures for civil aviation.

*Not available.

'1947 National income-£ NZ 422 million.

TABLE 22.

NORWAY

Other Military Expenditures		AL.	Navy	Armÿ.	Milliary Bodge Berenderung		
	ditures		, -	','		•	
118.1	185.0	59.6	61	112.4	Expenditures in Na- tional Currency Units (millions of kroner)	Most Fiscat	
67.0	37.2	111.9	12.2	22.7	Equiv. in US Dollars to (millions)		-
16.5	7,3	12	13	Ġ	% of Total National Govt. Expend.	RECENT BUDGET YEAR BEGINNING: JULY 1949	
-				180	% of National In- come	, S. H	
269.0	77.5	60.6	47.7	102.1	Expenditures in Na- tional Currency Units (millions of kroner)	Тизмон	
53.7	15.7	8	9.0	20.7	Equiv. in US Dollars (millions)	YEAR BE	
4	64 bo	15	Ę	3.7	% of Total National Govt. Expend."	IMMEDIATELY PRECEDENC FISCAL YEAR BEGINNING: 1 JULY 1948	
4	ь	եո	Łn	12	% of National In-	3	

'Conversion rate: 4.97 kroner=\$1 (Official Selling Rate)
'Total National Government Expenditures (in US Dollars)
Fiscal year beginning: 1 July 1949—\$509 million (budgeted)
Fiscal year beginning: 1 July 1948—\$553 million (actual)

^{&#}x27;Includes 84 million kroner extraordinary defense appropriation authorized for expenditure during period 1 January 1949 - 30 June 1950. Also a 75 million kroner "preparedness expense" not included in the regular defense budget.

'Not available. * Actual.

National income for 1948=8,750 million kroner.
 Including Coast Artillery.
 Including AA Artillery.

TABLE 23.

PAKISTAN

		ST RECEN CAL YEAR ! 1 APRIL	BECOME		IMMEDIATELY PRECEDING FISCAL YEAR BEGINNING: 1 APRIL 1948			
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of rupees)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National Income	Expenditures in Na- tional Currency Units* (millions of rupees)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National Income
Army Navy Sir Other Military Expenditures Total	731.0	220.4	46.1		15.9	4.8	58.4	ř

^{*}Conversion rate: 3.316 rupees=\$1. (Approx.)

^{&#}x27;Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 April 1949—\$458.1 million (budgeted) Fiscal year beginning: 1 April 1948—\$310.6 million (budgeted)

^{*}Budgeted.

[&]quot;Includes Rs. 2713 million (\$81.8 million) charged to capital outlay.

^{*}Includes Rs. 211.1 million (\$63.7 million) charged to capital outlay.

[&]quot;Not available.

TABLE 24.

POLAND

	MOST RECENT BUDGET FISCAL YEAR BEGINNING: 1 JANUARY 1949				Іммера	YEAR B	RECEDING MECEDIN	
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (bilions of riotys)	Equiv. in US Dollars (millions)	% of Total National Govt. Expend.	% of National	Expenditures in Na- tional Currency Units' (billions of glotys)	Equit. in US Dollars (millions)	% of Total National Govt, Expend.	% of National Income
Army	56.7 *		9.3	2.7	25.4 *		5.4	1.5
Navy	3.8		0.6	0.2	1.9		0.4	0.1
Air •								
Other Military Expenditures *					6.8	-	· 14	0.4
Total -	60.5		9.9	2.9	34.1		7.2	2.0

A valid dollar equivalent has not been established because of the substantial disparity between the official conversion rate and the actual purchasing power of the depreciated zloty. A conversion rate which reflects the actual purchasing power of the gloty cannot readily be determined. .

*Total National Government Expenditures (Includes state investments, and all expenditures for national and local governments, and state enterprises):

Fiscal year beginning: 1 January 1949—612.0 billion zlotys (budgeted) Fiscal year beginning: 1 January 1948—471.4 billion zlotys (budgeted)

*Budgeted.

*Services rendered by other Ministries to the Armed Forces are not fully reflected in the de-

Appropriations to the air force are believed concealed under other military services or, in part, under civil aviation within the Ministry of Transportation,

 Includes 4.6 billion zlotys for frontier guards and 7.8 billion zlotys for Internal Security Corps. both of which were announced as part of the defense budget,

Includes 5 billion zlotys for Internal Security Corps, announced as part of the defense budget.

Allocations to the Ministry of Public Security, a substantial portion of which is for "security" organs, amounted to 36.9 billion zlotys (including 11.6 billion for militia and 5.9 billion for prisons) in 1949, and 23 billion zlotys (including 4.4 billion for militia) in 1948. These allocations are not regarded in this report as military expenditures because complete breakdown is not available.

*Based on estimated national income of 2,070 billion zlotys in 1949 and 1,700 billion zlotys in



TABLE 25.

PORTUGAL

	FISCA	r Recent L Year I January	BEGINNI		YEAR BEGINNING: 1 JANUARY 1947			
MULITARY BUDGET EXPERIMITURES	Expenditures in Na- tional Currency Unita (millions of escudos)	Equiv. in US Dollars ' (millions)	% of Total National Gort, Expend.	% of National Income	Expenditures in Na- tional Ourrency Units (millions of escudos)	Equiv. in US Dollars' (millions)	% of Total National Gort, Expend.	% of National
irmy favy	753 455	30.0 18.2	13.3 8.1		811 411	32.4 16.4	15.5 7.8	
dr Other Military Expenditures Total	53 1,261	2.1 50.3	0.9 22.3		118	53.5	2.2 25.5	

^{*}Conversion rate: 25.065 escudos=\$1. (Selling rate—annual average).

^{*}Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 January 1948—\$225.4 million (budgeted)
Fiscal year beginning: 1 January 1947—\$209.7 million (budgeted)

^{*}Budgeted.

^{*}Military air appropriations included in army and navy allocations. No breakdown available.

Not available.

^{*}Does not include Colonial Troops (budgeted in Ministry of Colonies), Republican Guard (budgeted in Ministry of Interior), and Fiscal Guard (budgeted in Ministry of Finance), for which figures not available.

TABLE 26.

RUMANIA

	Frsc	MOST RECENT BUDGET FISCAL YEAR BEGINNING: 1 JANUARY 1949 IMMEDIATELY PRECEDING YEAR BEGINNING: 1 JANUARY 1949						FISCAL
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of lef)	Equit. in US Dollars (millions)	% of Total National Gort, Expend.	% of National In-	Expenditures in Na- tional Currency Units (millions of let)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-

Army Navy Air Other Military Expenditures Total

18,798.1

9.7

A valid dollar equivalent has not been established because of the substantial disparity between the official conversion rate and the actual purchasing power of the depreciated leu. A conversion rate which reflects the actual purchasing power of the leu cannot readily be determined.

*Total National Government Expenditures (Includes state investments, and expenditures for national and local governments, and state enterprises. While reparations deliveries are not mentioned as such in the budget, it is believed that they represent a part of total governmental expenditures):

Fiscal year beginning: 1 January 1949—192,961.0 million lei (budgeted) Nine Months 1 April 1948-31 December 1948—152,186.5 million lei (actual)

Expenditures for full year not available because of change in fiscal year to begin 1 January 1949. For nine months 1 April 1948-31 December 1948 total military expenditures (actual), as announced by the Rumanian Government, were equal to 14,501.0 million lei, equivalent to 9.5% of total national government expenditures for the same period.

*Distribution not available; chiefly army. Services rendered by other Ministries to the armed forces are not fully reflected in defense budgets. Allocations to the Ministry of Interior, a substantial portion of which is for "security" organs, amounted to 19,010.5 million lei in 1949 and 16,270.0 million lei in 1948 (nine months). These allocations are not regarded in this report as military expenditures because breakdown is not available.

' Not available.



TABLE 27.

BPAIN '

	MOST RECENT BUDGET FISCAL YEAR BEGINNING: 1 JANUARY 1949				Y	TELY PRE TEAR BEGI 1 JANUAR	HNING:	FISCAL
MULITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of pesetas)	Equiv. in US Dollars (millions)	% of Total National Govt. Expend."	% of National In-	Expenditures in Na- tional Currency Units* (millions of pessitss)	Equiv. in US Dollars' (millions)	% of Total National Govt. Expend."	% of National In-
Army Navy	3,160.9 1,033.7	281.7 92.2	18.8 6.2		3,029.1 956.3	270.0 85.2	19.9 6.3	
Air (less field construction) Other Military Expenditures	1,001.0 2,279.1	89.2 203.1	5.9 13.6		2,000.8	78.5 178.3	5.8 13.2	
Total	7,474.7	666.2	44.5		6,867.1	612.0	45.1	

^{*}Conversion rate: 11.22 pesetas=\$1 (Official Selling Rate)



^{*}Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 Jan. 1949—\$1,495.8 million (budgeted) Fiscal year beginning: 1 Jan. 1948—\$1,354.4 million (budgeted)

^{*}Budgeted.

^{*}Experience shows that the government's budget estimates are considerably less than actual expenditures (some 1,250 million pesetas less in 1948). Because of 40% pay increase for military and civilian personnel, 1949 budget expenditures will probably be larger than indicated.

Not available.

^{&#}x27;Includes: Expenditures in Morocco, and for Airfields, Civil Guard and security police forces, as well as "Old obligations (Army)"; excludes: "Pensions."



TABLE 28.

SWEDEN

		T RECEN	BEGINNI	1,000,000	LT PRE AR BEST JULY	MMING:	Fiscal	
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currenty Units (millions of kroner)	Equiv, in US Dollars' (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in National Currency Units (millions of kroner)	Equiv. in US Dollars ' (millions)	% of Total National Gort, Expend.	% of National In-
ırmy	321.8	89.1	7.3		322.0	89.4	7.3	
avy	172.2	48.9	3.9		147.3	40.9	3.3	
ir .	234.6	65.0	5.3		241.0	65.9	, 5.4	-
ther Military Expenditures	54.2	15.1	1.3		48.4	13.5	1.1	
Total	782.8	217.1	17.8		758.7	210.7	17.1	

'Conversion rate: 3.60 Swedish kroner-\$1 (Official Selling Rate)

*Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 July 1949—\$1,220 million (budgeted) . Fiscal year beginning: 1 July 1948—\$1,222 million (actual)

*Actual.

"Includes costs of Defense Staff, Central Administrative Authorities, and services contributed by other agencies for "Common Purposes of the Defense". Excludes "pensions".

*1948 gross national product is estimated at 25.38 billion Kroner at 1948 prices. No appreclable change in gross national product is expected in 1949. Percent of national defense expenditures to gross national product follows:

4	1949/50	1948/49
Army	1.27	1.27
Navy	.68	.58
Air	.93	.25
Other	22	.19
		~
Total	3.10	2.99

TABLE 29.

SWITZERLAND

	FISCAL YE	ENT BUDGET OR BEGINNING: OART 1949	IMMEDIATELY PRECEDING FISCA YEAR BEGINNING 1 JANUARY 1948					
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Ourrency Units (millions of Swiss france)	% of Total National Govt, Expend. % of National In-	Expenditures in Na- tional Oursency Units (millions of Swiss france)	Equiv. in US Dollars! (millions)	% of Total National Govt. Expend.	% of National In-		
irmy (avy iir	None		292.0 None 106.0	67.7 24.5	16	1.6		
ther Military Expenditures Total	415.2 * 98.	2 29	398.0*	92.2	22	2.2		

^{*}Conversion rate: 4.315 Swiss francs=\$1 (Official Selling Rate)

Fiscal year beginning: 1 January 1949—\$330.0 million (budgeted)
Fiscal year beginning: 1 January 1948—\$414.1 million (budgeted)

^{&#}x27;Total National Government Expenditures (in US Dollars)

^{*}Budgeted.

^{&#}x27;Provisional. No breakdown available.

^{&#}x27;Including anti-aircraft defense,

Excluding police,

^{&#}x27;Not available.

Based on estimate of 1948 national income—18 billion Swiss francs.



TABLE 30. TURKEY

	FISCA		BEGINNI T 1949	IMMEDIATELY PRECEDING FISCA YEAR BEGINNING: 1 JANUARY 1948				
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of Turidsh lina)	Equiv. in US Dollars 1 (millions)	% of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Currency Units ((millions of Turkish lira)	Equiv. in US Dollars (millions)	% of Total National Gort. Expend.	% of National In-
Army ' Navy ' Air.'	462,0	163.3			476.9	168.5		
Other Military Expenditures Total	91.5 553.5	32.3 195.6	40.3		84.2 561.1	29.8 198.3	41.9	*

^{&#}x27;Conversion rate: 2.83 Turkish liras=\$1 (Official Selling Rate)

^{&#}x27;Total National Government Expenditures (in US Dollars)

Fiscal year beginning: I January 1949—\$484.7 million (budgeted) Fiscal year beginning: I January 1948—\$473.2 million (budgeted)

^{&#}x27;Budgeted.

^{*}Turkish appropriations for army, navy and air force expenditures are made under a unified National Defense appropriation. No breakdown into the three service components is therefore available.

^{*}Includes Gendarmerie, National Security Services, and Customs Guards. In part estimated.

*No reliable figures for Turkey's national income for the years since 1945 are available.

Note: The 1949 expenditures may be increased during the course of the year, as is usually the case, by extraordinary appropriations. No mention is made above for US military grants in aid for military purposes to Turkey during the past two years—\$100,000,000 and \$75,000,000 respectively.

TABLE 31.

UNION OF SOUTH AFRICA

		SCAL YEAR	ENT BUDG R BEGINNI IL 1949		IMMEDIATELY PRECEDING FISCAL YEAR BEGINNING: 1 APRIL 1948					
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of SA £)	Equiv. in US Dollars (millions)	% of Total National Govt, Expend.	% of National in-	Expenditures in Na- tions our out on the (millions of SA t)	Equiv. in US Dollars (millions)	% of Total National Govt. Expend.	% of National In-		
Army * Navy * Air * Other Military Expenditure	ns.	•8			6.4 .6 2.8	25.7 2.4 11.2	4.7 .4 2.1	.85 .08 .37		
Total	9.8*	39.3 *	7.0		9.8	39.3	7.2	1.3		

⁻ Conversion rate: 1 South African £=\$4.0075 (Official Selling Rate)

^{*}Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 April 1949—\$561.8 million (budgeted) Fiscal year beginning: 1 April 1948—\$544.2 million (actual)

^{*}Actual.

^{*} Estimated.

^{&#}x27;Military budget expenditures for fiscal year beginning 1 April 1949 reported to be same as for fiscal year beginning 1 April 1948.

[&]quot;Not available.

Based on \$3 billions—estimated 1948 national income.



TABLE 32. UNITED KINGDOM

		T RECENT AL YEAR I 1 APRIL	BECHNIN		IMMEDIATELY PRECEDING FISCAL YEAR BEGINNING: 1 APRIL 1948					
MILITARY BUDGET EXPENDITURES	Expenditures in Na- tional Currency Units (millions of £)	Equiv. in US Dollars' (millions)	% of Total National Gort, Expend.	% of National In-	Expenditures in Na- tional Currency Units ' (millions of £)	Equiv. in US Dollars' (millions)	% of Total National Gort, Expend.	% of National In-		
Army Navy Air Other Military Expenditures ' Total	304.7 189.3 207.4 66.4 767.8	1,227.2 762.4 835.3 267.4 3,092.3	8.0 4.9 5.4 1.7 20.0	3.0 1.9 2.1 .7 7.7	346.7 162.7 186.9 65.0*	1,396.3 655.3 752.7 261.8 3,066.1	9.3 4.4 5.0 1.7 20.4	3.5 1.7 1.9 .7 7.9		

*Conversion rate: 1 £=\$4.0275 (Official Selling Rate)

*Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 April 1949—\$15,409.2 million (budgeted) Fiscal year beginning: 1 April 1948—\$14,986.3 million (actual)

*Actual. Includes deficiency appropriations for army, navy, and air.

*Cost of Atomic Energy Research and Development for military purposes not included and not known.

*Divided as follows:	(mil	lions)
	1949	1948
Ministry of Supply	£ 57.75	56.30
Civil Defense	3.85	5.17
Transjordan Army Subsidy	3.50	2.50
Ministry of Defense	.71	.55
Ministry of Labor (for conscription)	.60	47

*Based on 1949 national income estimate of £ 10,000 million,

*Based on 1948 national income of £ 9,675 million.

*Includes war terminal charges of £ 13.26 million and non-effective charges (mostly pensions) of £ 33.4 million.

*Includes war terminal charges of £ 60.51 million and some non-effective charges (mostly pensions) for which breakdown not available.

TABLE 33.

UESR

	-					-						
	FISCAL		BEGINS T 1949		IMMEDIATELY PRECEDING FISC YEAR BEGINNING: 1 JANUARY 1948							
MILITARY BUDGET EXPENDITURES*	Expenditures in Na- tional Currency Units (billions of rubles)	Equiv. in US Dollars : (billions)	% of Total National Govt, Expend.	% of National In-	Expenditures in Na- tional Ourrency Units (billions of rubles)	Equiv. in US Dollars ' (billions)	% of Total National Gort, Expend.	% of National In-				
Announced expenditures Concealed items:	79	7.9	19.0		- 66.3	6.6	17.9					
New construction for industrial support of armed forces Material support provided by various	15	1.5	4.0		10	1.0	2.7					
ministries	20	2.0	4.8		15 .	1.5	4.1					
From Education and Health appro- priations including scientific re- search Security organs performing military and para-military functions, in-	22	2.2	5.3		12	1.2	3.2					
cluding military intelligence	17	1.7	4.1		17	1.7	4.6					
Strategic stockpiling	12	1.2	2.9		5	.5	1.4					
Total	165	16.5	40.1	28.9	125.3	12.5	33.9	23.2				

*Conversion rate: 10 rubles::\$1. Conversion of the budget figures into US dollars is difficult since the ruble is not convertible into any foreign exchange on the established international money markets. The conversion rate of 10 rubles to \$1 reflects more realistically the purchasing power parity of the Soviet budgetary ruble than the official rate of 5.3 rubles per US dollar, established in 1935, which is clearly an overvaluation. It is estimated that the actual value of the ruble is 4 cents in terms of consumer goods to the public while the "budgetary" or industrial ruble is probably not more than 10 cents. This differentiation in the purchasing power may be explained by the Soviet system of taxation which is designed to reduce the public consumption to a minimum in order to divert maximum efforts toward capital goods production. A privilege granted by the USSR to diplomatic personnel to acquire rubles at the rate of 8 to a dollar is intended to compensate partly for the official overvaluation of the ruble.

*Total National Government Expenditures (in US Dollars)

Fiscal year beginning: 1 January 1949—\$41,540 million (budgeted) Fiscal year beginning: 1 January 1948—\$35,880 million (actual)

*Estimated.

'In addition to expenditures listed, it is essential to consider the following:

- Benefits accruing to Soviet military potential from Satellite production for USSR military account, reparations of military nature, and requisitions for maintenance of occupation forces;
- (2) Low per capita cost of maintenance of Soviet armed forces, as contrasted by Western standards, permitting utilization of larger proportion of military funds for armaments and supplies;

(3) Breakdown of appropriations for various services not available.

Estimated at 570 billion current rubles in 1949, 540 billion current rubles in 1948.

TABLE 34. YUGOSLAVIA

		RECENT BURY YEAR BEGINN			TELY PR		
***** * * * * * * * * * * * * * * * *	1 1.	JANUARY 1949			1 JANUAL	RT 1948	
MILITARY BUDGET, EXPENDITURES	Expenditures in Its. tional Currency Units (millions of dinars)	Equiv. in US Dollars' (millions) % of Total National Govt. Expend.	% of National In-	Expenditures in Na- tional Currency Units' (millions of dinars)	Equiv. in US Dollars ' (millions)	% of Total National Govt. Expend.	% of National In-
Army Navy Air Other Military Expenditures Total	25,000	15.4	10.3	16,500	Y 1 7 44	13.2	8.6

^{&#}x27;A valid dollar equivalent has not been established because of the substantial disparity between the official conversion rate and the actual purchasing power of the depreciated dinar. A conversion rate which reflects the actual purchasing power of the dinar cannot readily be determined.

*Total National Government Expenditures (Includes state investments, and all expenditures for national and local governments, and state enterprises):

Fiscal year beginning: 1 January 1949—162,585.3 million dinars (budgeted)

Fiscal year beginning: 1 January 1948—125,290.3 million dinars (budgeted)

Budgeted.

Allocations to "State Administration", a substantial portion of which is for "security" organs, amounted to 14,800.0 million dinars in 1949 and 13,100.0 million dinars in 1948. These allocations are not regarded in this report as military expenditures because breakdown is not available.

*Distribution not available; chiefly army. Services rendered by other Ministries to the

armed forces are not fully reflected in defense budgets.

*Based on estimated national income of 242 billion dinars in 1949 and 1919 billion dinars in



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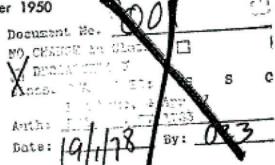
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IMPORTANCE TO THE US OF LATIN AMERICAN CIVIL AIR TRANSPORT

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MAPS

The following maps, which supplement the information contained in the appendixes, are enclosed in a separate envelope:

Latin American Routes of Airlines Wholly or Partly US Owned Airline Routes in South America Airline Routes in Middle America International Airline Operations in the South American Area International Airline Operations in the Middle American Area

IMPORTANCE TO THE US OF LATIN AMERICAN CIVIL AIR TRANSPORT

SUMMARY

In case of war with the USSR, US military airlift requirements will exceed the capabilities of available US civil and military transport aircraft. Under these circumstances, the Latin American countries could and probably would provide a considerable number of multiengine passenger and cargo transports for military airlift operations within the Central-South American area which would somewhat reduce this deficiency. Thus, within 60 days the Latin American airlines could assume the major portion of the military airlift requirements within that area, thereby releasing US aircraft for operations elsewhere. In addition, Latin America might contribute a small number of four-engine aircraft for military lift on the trans-Atlantic runs. If the Latin American contribution were limited to twinengine aircraft, it is estimated that as many as 275 planes could be furnished, of which a maximum of 175 would be cargo types. This twinengine cargo fleet could be employed to transport critical strategic materials from the interior of Latin America to seaboard transshipment points, and in the event of serious disruption of ocean shipping by enemy action, it could fly such materials directly to North America.

In time of peace, Latin American civil aviation is of some secondary importance to the US because it: (a) aids in the economic development of an area exceeded only by Europe as a market for US exports; and (b) provides a limited market for US transport aircraft of all types, thus slightly increasing the level of activity in the US aviation industry. Most Latin American countries, furthermore, have adopted in international agreements the liberal aviation principles sponsored by the US throughout the world, and thus have indirectly facilitated unimpeded international air traffic, which is a prerequisite to the maximum development of US commercial air carriers.

Expected trends in Latin American civil aviation unfavorable to the US are: a reduction in Latin American purchases of US aviation equipment owing to the dollar shortage and the competition now being offered to US exporters by foreign aircraft manufacturers; and a tendency among certain Latin American countries to adopt restrictive measures against foreign air carriers. The latter development would give impetus to similar restrictive tendencies already evident in other parts of the world, thus eventually threatening the structure of US world air routes.

Note: The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report. The information in the estimate is as of 1 March 1950 and in the Appendixes as of 15 November 1949. Important changes since these closure dates have been added as footnotes.



IMPORTANCE TO THE US OF LATIN AMERICAN CIVIL AIR TRANSPORT

Strategic Considerations.

In case of war, a major airlift would probably be required to support US objectives, conceivably in widely separated areas. The strain on the airlift capacity of the US in an emergency will be such that help from other sources will be of considerable strategic significance. Despite its relative backwardness, Latin American civil aviation is capable of making such a contribution to military airlift operations within the Central-South American area. Between 20 and 50 percent of the Latin American 550-plane transport fleet could and probably would be made available in a reasonably short time.

There are sound reasons to anticipate that all Latin American countries, in varying degrees of effective cooperation, would be aligned with the US in the event of war with the USSR. The degree and promptness of their cooperation would depend in part upon the circumstances out of which the emergency arose, but assistance would be immediately offered with sincere intentions if an attack occurred within the Western Hemisphere.

Because most of the governments concerned regulate private airlines and because there is also a certain amount of US influence in a number of important companies,* there should be little difficulty in diverting the planes to wartime use.

Given contracts protecting sovereignty and guaranteeing against loss, co-belligerent Latin American countries could be expected to accept as large a diversion of civil aircraft to joint war purposes as would the US under similar circumstances, despite the fact that air

Although US investments are proportionately not large, the actual influence of the US in the air transport industry of Latin America exceeds that suggested by the direct ownership participation of US interests, largely as a consequence of the considerable indebtedness of numerous airlines to their US stockholders. transport is normally of more critical importance to Latin American countries than are other media of transportation.*

The most urgent US need in case of a major emergency would almost certainly be for fourengine aircraft capable of transoceanic operations. Of the multi-engine US-built transports now operated by Latin American civil air carriers, about 50, or approximately 10 percent of the total, are four-engine aircraft. This number is roughly one-eighth of those now operated by all US scheduled domestic and international airlines and, assuming a proportionate diversion to wartime use, would increase by one-eighth the airlift contribution in four-engine aircraft made by US scheduled airlines. Apart from the mere number of these Latin American aircraft, moreover, their strategic value to the US would be substantially enhanced by virtue of the fact that more than half are adapted for long-range overwater operations. Their employment on transoceanic airlift missions would thus not require the time-consuming structural modifications which would be necessary for a large part of the US domestic fleet.

The maximum estimate for availability of the Latin American civil transports to the US is 50 percent, the minimum, 20 percent. The first figure is supported by the consideration that the bulk of the Latin American fleet is owned by those countries—Brazil, Chile, and Mexico, for example—likely to be most closely associated with the US in time of war; the second takes into account the increased wartime transport demands of the countries

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Paragraph

^{*}Certain variables, such as the operating condition of the aircraft at any given time and the feasibility of their rapid conversion from passenger to cargo use or vice versa, which would have to be considered in precise logistic planning, are omitted here. They are beyond the scope of this analysis, which is intended solely to indicate the order of magnitude of the possible Latin American airlift contribution.

themselves,* as well as any combination of unfavorable circumstances that would be likely to arise. On the basis of these estimates, Latin America could furnish a minimum of 110 and a maximum of 275 transport aircraft, predominantly of twin-engine types.** If it is assumed that cargo lift would be more important than passenger operations, it is reasonable to suppose that of the 110-plane minimum, sixty cargo-type aircraft would be available and of the 275 maximum, 175. Calculating on a reasonable basis of operating efficiency on a hypothetical run between the US Atlantic seaboard and Brazil, for example, the lift capacity of 60 C-47's would be 810 tons a

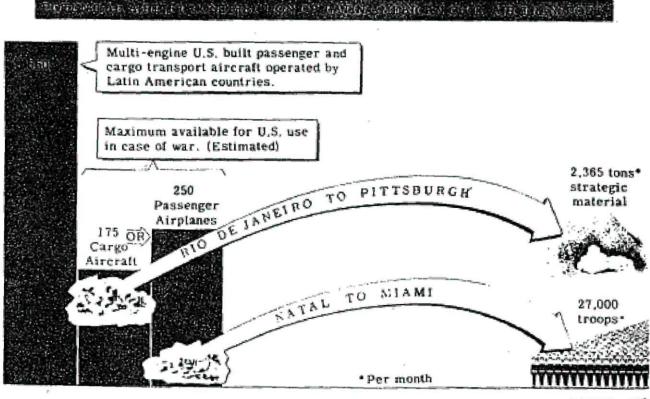
* In addition to the 550 civilian aircraft aircady mentioned, there are about 180 US-built transports, most of which are structurally suited to both cargo and passenger operations, which are attached to the various Latin American armed forces, and could be drawn on for airlift purposes or employed by Latin American countries as replacements for diverted civil transports.

** See Table I, page 7.

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month; of 175 C-47's, 2,365 tons. For the carrying of passengers, on the other hand, a minimum of 100 or a maximum of 250 planes of this type could be expected, capable of carrying between 10,800 and 27,000 troops per month on a hypothetical run between Miami and Natal. In the event of circumstances requiring either type of operation, the continued existence of the extensive and well-organized chain of airfields and other facilities on the Brazilian north coast and through the Caribbean would be a consideration of the highest importance to the US.

Particularly if bilateral arrangements had been made before war began, a majority of the Latin American aircraft could be made available to the US in a short time. Because of the low standards of efficiency and maintenance prevailing in many Latin American airlines, however, and the organizational problems involved, it would take at least sixty days before the full capacity of these planes would be utilized.



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The present trend toward replacing US aircraft with foreign types, if continued, would somewhat hamper the effectiveness of a Latin American contribution in case of emergency because of the difference in flight and maintenance procedures and the need of obtaining parts abroad. If, however, the Latin American fleet were used as a self-contained unit in purely South American operations from its normal bases, the effect would be less important.

Although it is impossible to foresee the many US requirements for emergency airlift capacity, one possible use of the Latin American air ficet directly affecting US security interests would be the transport of certain critical strategic materials from remote sources to seaboard transshipment points or, in case of extreme emergency, from Latin America directly to the US. Current stocks of most of the strategic materials in the US stockpiling program are considerably short of objectives, and there is no immediate prospect of meeting these goals. The present unfulfilled objectives, moreover, are subject to drastic upward revision at any time as the result, for example, of scientific or technological progress. Reduction in the availability of strategic materials from normal sources is also possible. The fall of Southeast Asia to the Communists, for example, would render increased US access to South American production critically important. Other sources of materials to which the US has external lines of communication might be cut off by hostile submarine action or Communist sabotage.

Use of the Latin American airlift for emergency transport of strategic materials is entirely feasible. Such an airlift would probably be directed toward commodities for which the US requirement is relatively small and for which the limited airlift capacity would be best suited. Latin American sources of such materials are already being exploited and are in many cases capable of expanded production, while airfield installations have already been constructed in locations within reach of needed materials. Although the majority of Latin American airfields are not suitable for four-engine aircraft, most are capable of accommodating sustained operations by twin-

engine aircraft, which are those in largest Latin American supply and most likely to be used in a strategic materials airlift. Since twin-engine planes constitute the least stringent US requirement, their use in a strategic material lift would not seriously prejudice the primary airlift commitment. Moreover, in case of a catastrophe such as the breakdown of ocean transport, twin-engine aircraft could be diverted from their most logical use in a strategic material airlift (production site to seaboard) to an operation from Latin American to North American destinations, whereas they could not satisfactorily transport mass cargoes from sites overseas. The strategic value of the Latin American airlift in such extraordinary circumstances is illustrated by the fact that these aircraft, which are capable of transporting 2,365 tons per month if operated from Brazil to the US (see p. 4), could deliver a volume of beryl, quartz crystals, tantalite, tungsten, zircon (baddeleyite), columbite and vanadium 75 percent greater than the average monthly US imports from all sources in 1948. In the event of a sustained operation, moreover, cargo capacity could be increased somewhat by the conversion of passenger aircraft to cargo use.

2. Economic Considerations.

The principal long-range economic significance of civil aviation in Latin America, from the US point of view, stems from its role in providing rapid intra-area communications. Aviation develops and maintains the economies of backward and isolated areas, and otherwise promotes the economic stability of the Latin American nations, particularly in view of their inadequate surface transport and the geographic obstacles to their economic unification. As an important factor in promoting the economic welfare of an area which is exceeded as a market for US exports by Europe alone, the continued development of Latin American civil aviation is, therefore, clearly to the long-range advantage of the US.

There are other factors of secondary economic importance to the US. The area constitutes a market for the sale of new and used US transport aircraft, spare aircraft parts, and other aviation equipment as evidenced by the fact that about 90 percent of the present

Latin American transport fleet is of US manufacture. US exports of all types of transport aircraft to Latin America totaled about \$41.1 million for the three-year period 1947-9.* This volume represented roughly 27 percent of the dollar value of all US exports in this category during these three years, thus constituting a significant portion of the overseas market for US transport aircraft, and it was appreciably supplemented by the sale of spare parts and equipment. Because of the vital need to maintain the US aircraft industry at the highest possible peacetime level in order to minimize the required wartime expansion, any foreign markets for planes or for engines and parts are significant, particularly in view of the rapid downward trend in US civil transport production since 1947.

The bulk of recent sales to Latin America has been of US war surplus stocks, and the actual purchase of new planes during the three-year period was not large (only about 8 percent of US civil transport output), but the very fact that most of the planes were not new is of some significance, because it promises an accelerated demand for replacements. The present US-made Latin American civil transport fleet (DC-3 and larger) is about 50 percent of that now operated by all US scheduled airlines, indicating a replacement demand at least half the size of that in the US. Considering the need for new and modern planes to replace obsolescent ones, thus increasing the average unit volume of the aircraft sold, and the high replacement demand for new engines and parts, the Latin American market could, in coming years, have a considerable effect on maintenance of the US industry. despite the fact that the rate of expansion of the area's air fleet is expected to be moderate.

The above estimate, however, is made without reference to the competition that US manufacturers must meet. The prevalent Latin American dollar shortage plus the competitive advantage accruing to British and other European manufacturers through currency devaluation create a strong temptation in Latin America to buy in other than US markets. These factors have already tended to favor increased Latin American purchases

With respect to its economic significance as an outlet for US investments, Latin American civil aviation does not offer an attractive market for venture capital. The declining US financial stake in Latin American-flag airlines, most of which are capitalized at comparatively low levels, is estimated now to be less than \$20 million, on the basis of the nominal value of stock holdings. This situation is in part the result of the enactment and enforcement by many Latin American countries of legislation requiring majority stock ownership and effective control of national-flag airlines to be held by interests of the same nationality. The policy of establishing national control over civil air activities is consistent with the efforts of the Latin American countries toward economic autarchy in other directions, as manifested by their attempts to develop local industry, their preference for government-togovernment loans or grants, and their pronounced prejudice against admission of foreign capital except under restrictions unlikely to appeal to foreigners.

Political Considerations.

Civil air relations between the US and Latin America have also a subsidiary political importance in that Latin America's technical dependence upon the US in aviation matters during and after the war has resulted in a marked US influence in civil air affairs. Although there is evidence that this influence is declining as Latin American capabilities are developed, close cooperation between the two areas in aviation matters has contributed to

of military equipment and machinery from Europe. Furthermore, current production in Europe of small aircraft particularly suitable for Latin American feeder-line operations, some of which have already been sold in the area, and the probable introduction to the Latin American market of Canadian or British jet transports in advance of such US types will increase the competition. Since Latin American purchases of new aircraft in the near future are not expected to be extensive, however, any trend away from US equipment will develop gradually and its effects on the US aircraft industry may not be appreciable for several years.

^{*} See Table II, page 7.

their generally cordial relations and remains a potential means of sustaining them. Factors promoting close relations, in addition to the increased economic intercourse developed through exchange of airline services, have been the negotiation of reciprocal air agreements, and the establishment of US technical assistance missions in Latin America and training programs for Latin American personnel in the US.

A prime objective of postwar US aviation policy has been the facilitation of freedom of international movement for US commercial air carriers under conditions conducive to their maximum development. In general, bilateral agreements negotiated by the US with major Latin American civil air powers embody "liberal" principles, favorable to US aviation interests. In turn, Latin American agree-

TABLE I ESTIMATED LATIN AMERICAN CONTRIBUTION TO EMERGENCY AIRLIFT

	AIRC AVAIL (20%	Number Rafy Able Basis) 10	AVAII (50%	NUMBER BAFT LABLE BASIS) 75
	140	Personnel Priority*		Personnel Priority*
Cargo Aircraft.	60	10	175	25
Passenger Air- craft	50	100	100	250

Contract

ments with European countries have generally conformed to the US standard type. As a result, designated US airlines have been assured freedom of movement throughout most of Latin America, and the US case in sponsoring world-wide liberal air principles has been considerably strengthened in other areas less subject than Latin America to US influence.

There is no assurance, however, that this trend will continue. As the Latin American lines, already financially weak, encounter increasing foreign competition, they are likely to adopt more restrictive policies toward foreign carriers. Moreover, the quondam opposition of certain Latin American countries to a multilateral air agreement, which was being strongly advocated by the US, indicates that opposition from this area to US objectives in international air conferences is not excluded. Should this change take place, it would give impetus to a similar movement already evident in other parts of the world and thus might eventually threaten the whole structure of US world air routes.

TABLE II
US TRANSPORT AIRCRAFT EXPORTED TO
LATIN AMERICA
(Military and civil)

YEAR	NEW AIRCRAFT		USED AND SURPLUS AIRCRAPT		TOTAL	
	Units	Dollar Value	Units	Dollar Value	Units	Dollar Value
1947	20	3. 4	292	14. 4	312	17. 8
1948	27	6. 9	198	8. 6	225	15. 5
1949	9	9	160	6, 9	169	7. 8
Three Year Totals	56	11. 2	.650	29. 9	706	41. 1

^{*}This is a breakdown of minimum and maximum figures into a further estimate of the distribution between cargo and passenger aircraft which would be made available should priority airlift requirements demand on the one hand transport of cargo, and on the other hand transport of personnel. These estimates are based on several factors, including the fact that the Latin American civil air fleet is made up of about 195 cargo aircraft and 360 passenger transports.

DEFINITIONS

The following terms pertaining to civil avlation employed throughout this estimate are herewith defined:

- (a) Fifth Freedom. This controversial principle concerns commercial air traffic privileges accorded through international agreement to an air carrier of one nation in the territory of a second. Specifically, Fifth Freedom is the privilege of an air carrier of one nation to take on in the territory of a second country passengers, mail, and cargo destined for a third state and, conversely, the privilege to put down in a second nation passenger, mail, and cargo originating in a third country.
- (b) Bermuda Agreement. The Bermuda Agreement was negotiated between the US and UK in February 1946. It incorporated certain liberal principles governing international commercial air traffic, including a mutual concession of Fifth Freedom privileges and recognition of the right of fair and equal opportunity to engage in air commerce under

competitive conditions. The US and UK have jointly promoted these principles throughout the world and the Bermuda Agreement has become the model for a large number of subsequent international air agreements.

(c) Unduplicated Route Mileage. The following hypothetical case illustrates the manner in which unduplicated route mileage is computed. Two given routes, such as New York-Habana-Panama and New York-Habana-Caracas, having a common segment (New York-Habana), are both operated by a single airline. In computing the unduplicated route mileage of this carrier the duplicated segment (New York-Habana) is included in the airline's total only once. Moreover, this carrier's unduplicated route mileage is not affected by the fact that one or more other airlines operate parallel routes. The term "unduplicated," therefore, refers only to those route miles which are not duplicated by an individual air-



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ANNEX

INTRODUCTION

Historical Background.

a. Prewar Development.

Before World War II, civil air transport in Latin America was developed, financed, and to a large extent controlled by European and North American interests. It was particularly susceptible to foreign development because of the financial and technical inability of most Latin American countries to develop their own air services. Lack of adequate surface transport, moreover, led Latin American countries to encourage development of air transport. As a result, foreign interests (principally German and US) established, operated. and controlled extensive air networks under liberal concessions. The capability of various national interests in Latin America to provide domestic air services gradually increased, however, with the result that by the outbreak of World War II a trend was perceptible toward the progressive restriction of privileges enjoyed by foreign aviation interests.

b. Wartime Development.

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Elimination of Axis Influence. With the outbreak of the European war and the subsequent military victories of the Axis, the extensive penetration of Latin American civil aviation by German-flag and German-controlled airlines (which together flew three million miles in 1940 over 27,000 route miles throughout South America) became a source of increasing concern to the US. Italian trans-Atlantic services, furthermore, flew from Rome to Natal, Rio de Janeiro and Buenos Aires. Consequently, the US and various Latin American governments cooperated to eliminate all Axis influence gradually from Latin American aviation. This was accomplished through the progressive replacement of Axis air services either with US airlines directly or with native services operated by UStrained flight and ground personnel and backed by US financial aid and technical assistance.

As a result of these measures and the discontinuation of air services in Latin America by other European interests, together with the close wartime collaboration between the US and Latin American governments, the US, at the close of the war, enjoyed a virtual monopoly of foreign influence over Latin American aviation.

US Aid to Latin American Aviation. US-Latin American collaboration in aviation matters, instituted early in the war, has included technical guidance as well as the training of pilots, mechanics, instructors, engineers, and high-level administrative officers. US civil air missions have also assisted in establishing and developing standardized air traffic control and operational procedures, and have provided technical advice on navigational aids, radio communications, meteorological installations, and maintenance requirements. Moreover, the US has advised certain Latin American nations regarding the promulgation of modern civil aviation regulations. This assistance, together with the US-sponsored wartime Airport Development Program, laid the foundation for the rapid expansion of Latin American airline operations.

c. Postwar Expansion of Airlines and Air Facilities.

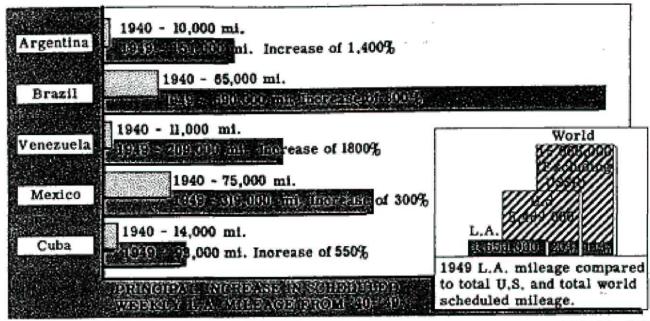
The end of World War II initiated a period of rapid and continuing expansion of national-flag and foreign airline operations in Latin America.

Increase in Latin American Airline Equipment. As a result of having purchased modern aircraft from US postwar surplus stocks at low cost, Latin American scheduled airlines in 1947 were operating over 400 more aircraft, including 36 more 4-engine types, than in 1940. (See Table A.) By early 1949 another 69 aircraft, including 22 additional

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4-engine transports were added, thus bringing the total fleet operated by the area's scheduled airlines to approximately 700.

Although US-manufactured aircraft amounted to 72 percent of the total owned by Latin American scheduled airlines in 1940, only 23 were as modern as the DC-3. In 1949, six hundred aircraft, or 88 percent of the total, were of US manufacture, and of these, 450 were of types at least as large and as modern as the DC-3. (Aircraft of UK manufacture in use in 1949 amounted to only 8 percent of the Latin American transport total.) The increase in US equipment operated by Latin American airlines, moreover, would have been even greater had it not been for the severe dollar shortage which has recently prevailed in most Latin American countries.

Although Latin American airlines operated 18 percent of the world total of scheduled airline equipment in 1949 (excluding the USSR), their share of 4-engine aircraft amounted to slightly less than 7 percent of the world total of this type.

Increase in Latin American Airline Operations. As a result of rapid postwar expansion, Latin American scheduled airlines were operating in 1947 about four times more mileage than in 1940. (See Table B.) By 1949, this mileage had increased to over 15 million miles per week or more than five times that scheduled in 1940. The principal increases in scheduled weekly mileage from 1940 to 1949 were made by the airlines of Argentina (an increase of about 140,000 miles-1,400 percent), Brazil (about 460,000 miles-over 700 percent) and Venezuela (about 170,000 miles over 1,500 percent). These countries have established substantial intercontinental operations. Since 1940, the airlines of Mexico and Cuba have also shown marked increases in scheduled operations, amounting per week to over 220,000 miles (300 percent) and over 70,000 miles (500 percent), respectively. The total scheduled mileage in early 1949 for all Latin American airlines amounted to slightly less than 20 percent of the mileage flown by all US scheduled domestic and international carriers and about 11 percent of the world total (exclusive of the USSR) of scheduled operations.

Despite pronounced postwar expansion of operations, Latin American airlines have been limited by the general lack of public funds throughout the area, and by the severe dollar shortages which have affected most Latin American countries during the last two years. Government plans for badly needed development and improvement of airports, radio aids to navigation, and meteorological and com-

munications facilities have had to be realistically adjusted to national budgets. Many airlines, therefore, have been forced to develop air installations at their own expense. As indicated above, moreover, the recent dollar shortage has also, by preventing the purchase of desired new equipment from the US, to some extent limited the expansion of airline operations.

Increase in Operations of Foreign Airlines in Latin America. The growing capability of Latin American carriers to provide services throughout Latin America and to Europe and the US has created an increasingly competitive situation for foreign airlines operating to Latin America. In addition, the postwar inauguration of Latin American operations by six European carriers has gradually dissipated the monopoly of foreign-flag services enjoyed immediately after the war by the US in that area. In spite of these developments, the postwar Latin American operations of US scheduled airlines have expanded considerably, partly as a result of the addition of new routes, but principally because of the greatly increased frequency and capacity of services offered. Moreover, despite the growth of Latin American-flag services, the scheduled mileage of US-flag airlines operating in Latin America in 1949 was still about 50 percent of the domestic and international mileage of all Latin American-flag scheduled airlines combined.

Governmental Policy toward Civil Aviation.

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With respect to the civil aviation policies of Latin American countries, the principal postwar trends which affect US interests reflect the increased capabilities of Latin American air interests to provide adequate air transport services. The development of national-flag aviation has resulted in a growing Latin American independence of foreign influence in aviation matters and a desire to protect national airlines from intensive foreign competition in international operations. In domestic operations, moreover, all but two of the Latin American countries which granted cabotage privileges to foreign airlines have withdrawn such rights, thus reserving domestic air traffic to national interests.

Government Promotion of Continued Expansion. Many Latin American countries are promoting the development of adequate air services to all parts of their territories and in this respect are encouraging their domestic air carriers by means of air-mail contracts and other forms of direct or indirect subsidy. Modern airports and other operational facilities in many instances are being developed at government expense. Private flying is also promoted through government support of aero clubs. These programs are already being limited, however, by a growing shortage of public funds in some Latin American countries and by the increasing cost of all phases of civil aviation. As a result, these countries will probably be unable for some time to initiate over-all development programs, and construction or improvement of facilities may be restricted to the most essential projects." Nevertheless, the announced plans of various Latin American airlines indicate that there will continue to be some expansion of both domestic and international air routes and frequencies. Latin American governments will continue to seek US advice and assistance in technical training of Latin American airline personnel until national capabilities have been further developed.

Protection of International Carriers. In addition to the foregoing positive support of both domestic and international airlines, a number of Latin American countries have adopted policies designed to protect their national-flag carriers, operating internationally, from intensive foreign competition. Attempts have been made during negotiations for air transport agreements with other countries to neutralize the competitive advantage of heavily-subsidized foreign airlines by restricting their traffic privileges in Latin America (see below, "Policy Toward International Arrangements").

Policy Toward International Arrangements.

Multilateral Air Transport Agreements.

Having generally similar aviation interests, the Latin American countries represented at multilateral air transport conferences have voted practically as a bloc. Because they lack the financial and technical resources to meet intensive competition for a limited amount of international air traffic, these countries have opposed multilateral agreements on in-

ternational air traffic rights which included Fifth Freedom privileges, and have insisted on retaining discretionary powers in such matters. For example, this attitude on the part of Latin American countries was partially responsible for the failure in 1947 of a special International Civil Aviation Organization (ICAO) Commission convened for the purpose of negotiating such an agreement. There appears to be little likelihood, moreover, that this attitude will undergo a change in the foreseeable future.

Bilateral Air Transport Agreements. In contrast to their opposition to multilateral agreements of a liberal type, Latin American countries have concluded forty-three bilateral air agreements which, for the most part, conform to the basic principles of the Bermuda pact. (See Table C.) The substantial postwar expansion of both Latin American-flag international operations and foreign-flag services to Latin America necessitated the conclusion of thirty-five agreements involving non-Latin American countries, principally the US and UK. The other eight agreements govern civil air relations within the Latin American area.

Two leading Latin American civil air powers, Mexico and Argentina, have consistently attempted to protect their international carriers by pursuing policies designed to restrict foreign-flag operations in their territories, either through limitation of flight frequencies or a predetermined division of traffic. Mexico, whose international airlines are at present in the early stages of development, has successfully maintained its restrictive policy with the result that it has concluded only two bilateral air agreements. Argentina, on the other hand, with numerous foreign routes and plans for further expansion, has been forced in several cases to accede to more liberal principles demanded by other countries in order to obtain desired foreign landing rights for its own international airline.

In contrast to Argentina and Mexico, Brazil, whose principal international carrier is well able to compete with foreign airlines, has not pursued a restrictive air policy, but has signed eleven bilateral agreements of a liberal type. While Colombia and Venezuela, whose flag air-

lines operate less extensive international routes, have not yet attempted any major restriction of foreign airlines, there are indications that they may wish to do so if they become convinced that the ability of their airlines to compete successfully on international air routes is threatened by strong foreign competition. The remaining Latin American countries are not yet conducting significant international air operations and therefore have had little reason thus far to adopt protectionist measures for their national-flag enterprises. The already demonstrated opposition of these countries to a multilateral exchange of Fifth Freedom privileges, however, indicates the strong possibility that their relative financial and technical weakness in civil aviation will cause them to attempt some limitation of foreign competition when they are in a position to initiate their own international services. On the other hand, these countries may eventually find it necessary to follow the example of Argentina in order to obtain minimum desired rights in other countries for their own air carriers.

The US and UK, the two principal proponents of the Bermuda principles, have been particularly successful in promoting Bermudatype air agreements in Latin America. The US has concluded eleven such agreements throughout the area, including all the larger countries except Mexico. The UK, for its part, has negotiated six Bermuda-type agreements in Latin America, in addition to a restrictive agreement signed with Argentina prior to the Bermuda pact.

International Organizations. The Fifteen Latin American members of the International Civil Aviation Organization participate in its proceedings as actively as their financial and technical resources permit. Four of these members, however, were censured during 1949 for failure to meet their financial obligations to the organization. Financial difficulties have been largely responsible for failure of the other five Latin American countries to join the organization.

Nine international airlines of seven Latin American countries are active members of the international carriers' organization, the International Air Transport Association.



TABLE A
EQUIPMENT OF LATIN AMERICAN SCHEDULED AIRLINES

		1940	1947	1949
(1) (2)	Total sircraft	205	622	169
	No. of aircraft	127	535	604
	Percent of total.	62	86	88
(3)				
	No. of aircraft	Included in Item	39	58
	Percent of total	(5) for 1940	6	8
(4)	Axis Manufacture*:			-
	No. of aircraft	40)	Included in Item (5)	Included in Item (5)
	Percent of total	20	for 1947	for 1949
(5)	Other Manufacture:		NO. CO. CO. CO. CO. CO. CO. CO. CO. CO. C	
	No. of aircraft	38	48	29
	Percent of total	18	8	4
(6)	4 Engine aircraft.	2	38	60
(7)	3 Engine aircraft	69	19	11
(8)	2 Engine aircraft	96	454	528
(9)	I Engine and unidentified a/e	38	111	92
10)	Modern US aircraft **	23	296	456

^{*} Item (4), showing aircraft of German or Italian manufacture, is included to demonstrate Axis influence in prewar; Latin American civil aviation. For the postwar years, 1947 and 1949, the relatively small number of these aircraft remaining in service is included under "other" in Item (5).

TABLE B
COMPARATIVE WEEKLY SCHEDULED MILEAGE OF AIRLINES

00.0000000

	1940	1947	1949
Latin American Airlines, Total	323, 602	1, 381, 279	1, 650, 827
US Airlines in Latin America	******	827, 796	843, 097
US. Airlines, Total	******	7, 607, 000	8, 489, 000
World Airlines, Total (excluding USSR)	2012013	12, 424, 000	15, 066, 000

^{**} Item (10) includes aircraft of US manufacture which are at least as modern and as large as the DC-3, and are currently in use by US civil and military air carriers. Specifically: DC-3, DC-4, DC-6, C-46, Convair 240, Martin 202, Constellation.

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Argentina	v			В	В																	В	C
Bolivia	v				13																	В	
Brazil	v	13			В																	В	В
Chile	v	В	В	8				1	13													В	В
Colombia	V										N	921										A.	В
Ecuador																						В	
Paraguay	V																					В	
Peru	V				В									В							B	В	13
Uruguay							0.55			150												В	В
Venezuela.	v			r.ii		N																В	
Mexico	v						10							U					110				
Costa Rica						-																N	
Cuba	v								В			U		5055									В
Dominican Republic	v																	-				В	
El Salvador	v																			- Ar hi			

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RGENTINA

V

Guatemala Haiti

Honduras Nicaragua Panama

U.S.

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TABLE C

INTERNATIONAL AIR AGREEMENTS

CONCLUDED BY LATIN AMERICAN

COUNTREES

OMINICAN REPUBLIC

CATEMALA

ONDURAR

META RICA

SYEBUELA

EXICO

RUCLAY

RAGUAT

LOMBIA

ALLL

UABOR

NETHERLANDS

CBBC

B B B

N

NB

B

13

PORTUGAL.

CC

B * B B

RELOUM

A-Prewar

B-Bermuda Type

C-Sptit Traffic/Restrictive

U-Unknown Type

N-Company-Government

V-ICAO Member

^{*} The Brazil-Spain agreement, signed 28 November 1949, is ostensibly a Bermuda-type bilateral, but appears to contain some restrictive provisions.

^{**} Norway, Denmark, Sweden.



TABLE D OWNERSHIP OF AIRLINES South America

South America									
	PERCEN	TAGE OF OW	NERSHIP	nemarks					
COUNTRY	U.S.	Nationals	Govt.	HERAKES					
Argentina:									
Aeroposta	******	*****	100						
ALFA			100						
FAMA		******	100						
LADE	******		100						
ZONDA		*****	100						
Bolinia: LAB	20*	25	55	*Panagra					
Brazil:									
Aero Geral		100		**************************					
Aerovias Brasil	9*	91	**	 *9% U.S. interest held by TWA. * VASP bought 82% interest in 2/49, resold in 2/50. 					
LAP.,,,,,,,		100							
LATB		100							
PAB	48*	52		* PAA					
REAL		100							
VARIG.,		100	•	* Govt. of Rio Grande do Sul holds 21%					
Cruzeiro		100							
SAVAG	******	100							
VASP		100		* Govt. of city and state of Sao Paulo holds					
				75%					
British Guiana: BGA	100*	*****	******	* U.S. citizen					
Chile:									
LAN			100						
Lipa-Sur		100		*****************************					
Colombia:									
AVIANCA	47.7*	49, 1	2, 8	4 other, * PAA					
LANSA		99. 5		.5 foreign					
SAETA	*	100	******	* 30% held by AVIANCA					
AEROTAXI		100	4.4	* 100% held by AVIANCA					
AFRYPESCA	******		,,,	Unknown					
Ecuador:									
ATECA		100							
TRASANDINA		100		*******************************					
n-									
Paraguay: LATN			100	*					
LAIN			100						
Peru: ANDES	•	*****	4 4 8 4 4	* No information on percentages. Peruvians believed to hold controlling interest. Some US capital.					
Faucett	25*	75		* PAA					
TAM		411444	100	***************************************					
				The state of the s					
CAUSA		100							
	4 5 1 5 7 4 4	11.0	100						
PLUNA			100						
Venezuela:	6W	FF 11		ADAA MATAV					
TACA de VENEZUELA	37. 05* 45*	55. 45 42. 8	7. 5**	*PAA **LAV *TACA system controlled by Waterman					
ANDR DE PARTOCOMONA				Steamship Corp. of the US, **LAV					
LAV			100	***************************************					

em sens

TABLE E OWNERSHIP OF AIRLINES Middle America

		Middle An	erion			
	PERCEN	TAGE OF OWN	ERSHIP	REMARKS		
COUNTRY	U.S.	Nationals	Govt.	1		
Bakamas:						
BAL.		100*	17.	 British – wholly-owned subsidiary of BOAC. 		
Costa Rica:						
LACSA	40*	40	20	* PAA		
Opcidentales	100*			* US Citizen		
TACA de CR	(1)	100*		*Sold by TACA System to 2 residents of		
,				Costa Rica 5/48. Costa Rican owners may be backed by US capital.		
				of defere of on order		
Cuba:		100				
Aerovias "Q"	171		* * *	* PAA		
Cubana	48*	52	4 * *	• US Citizen		
Expreso*	39. 54	60. 46	1	- US CIRINGI		
Aeropostal	4 1 1 1 1 1	100				
Acrovias de America		100	6.1.1	***************************************		
Dominican Republic:				ar acre s		
CDA	40+	60	,	* PAA		
El Salvador:						
TACA El Salvador	98*		. 4 7	* Almost wholly owned by TACA Airways,		
TACA EL BRIVAGO				S.A., in turn controlled by Waterman Steamship Corp. of the US		
Guatemala:						
Aviateca		5 1 = 7 T T	100			
Haiti:						
Garde d'Haiti			100			
Honduras:						
SAHSA	40*	40	20	* PAA		
TACA de Honduras	4.004	100		* Sold by TACA System to 2 residents of		
TACA de Honouras				Honduras 2/48. Honduran owners may be backed 73% by US capital.		
Jamaica:						
BCA			100*	* Purchased by BOAC from Jamaican owners		
270721				in October 1949.		
CIA		100*		* British citizen		
Mezico:	40*	60		* PAA		
Aeronaves		63		* US Citizen		
Aerovias Guest		100		* Controlling interest believed to be held by		
ALASA	•		***	US Citizens		
ATSA	38*	62	- + 1	• 2 US Citizens -		
CMA	41*	59		* PAA		
Contreras		100				
GPA		100		****************************		
Jalisco		100				
LAMSA	A 10 MILES			* United Air Lines and US citizens. Pre- ferred Stock: 100% UAL; Common Stock: 83.2% UAL, 16.8% US Citizens.		
Panini		100		***************************************		
Reforma		100				
		100				
T11101				***************************************		
TAMSA		100	4 0 1	*********		
TAT		100				
		40	20	* PAA		
TAT	40*	40		* PAA		
TAT Nicaragua: La Nica	. 40*					
TAT Nicaragna: La Nica Panama: COPA	. 40*	40	20	* PAA		
TAT Nicaragua: La Nica Panama: COPA Puerto Rico:	40*	40	20	* PAA		
TAT Nicaragna: La Nica Panama: COPA	40*	40 67	20	* PAA		

APPENDIX A

ARGENTINA

Government Organization for Civil Aviation.

Governmental jurisdiction over the various phases of civil aviation in Argentina is divided between the Ministry of Transport and the Ministry of Air. Following the creation of the Ministry of Transport in June 1948, the Directorate of Commercial Aviation was separated from the Ministry of Air and transferred to the new organization. With the exception of regulation of commercial aviation, however, all Argentine aviation activities fall under the jurisdiction of the Ministry of Air. The two Ministries have the following general responsibilities:

Ministry of Trans- port	Ministry of Air
Railroads	National Meteorological Service
Inland River Shipping	Institute of Aeronautical Medicine
Overseas Ship- ping	Airport Construction and Maintenance *
Roads	Air Traffic Control
Commercial Avia- tion	Accident Investigation (other than commer- cial)
	Aircraft Industry (Cor- doba)
	Air Force

When the Argentine airlines were nationalized in May 1949, they were placed under the direction of the Ministry of Transport. Resentment of the Ministry of Air over the changes which reduced its power and rivalry between the two Ministries in the field of transportation have adversely affected the Argentine Government's administration of aviation matters. Military officers hold the majority of key posts in both Ministries and

thus exercise almost complete control over civil aviation policy.

Among the several temporary or permanent commissions which have been established to deal with civil aviation are: (1) an advisory council whose responsibility is to coordinate the activities of all government organizations on matters affecting international civil aviation, with particular reference to Argentina's membership in the International Civil Aviation Organization (ICAO), and to advise the Minister of Air thereon; and (2) a temporary Air Transport Advisory Council which is to study the position of commercial aviation in Argentina in relation to the over-all transport requirements of the country.

2. Domestic Civil Aviation Policy.

Argentina's desire to bring its aviation up to the level of the most advanced air nations of the world has produced a nationalistic air policy designed to promote Argentine civil aviation and to develop a self-sufficient industry capable of serving the needs of both military and civil aviation in Argentina.

a. Civil Aviation Legislation.

The Basic Air Policy of the Argentine Government was outlined in Decree No. 9358/45 of 27 April 1945, which stated the following principles:

- Domestic airline operations should be undertaken preferably by the government directly and otherwise by mixed companies which include substantial government participation.
- (2) International aviation should be governed by bilateral reciprocity.
- (3) Infrastructure (airports and all other ground facilities) should belong exclusively to the government.
- (4) Eventually, all shareholders and employees of Argentine airlines should be native Argentines.

^{*} The new international airport at Ezezia has been placed under the Ministry of Transport.

By-laws of this decree outlined details of organization of the mixed companies which operated Argentina's air services until nationalization of all airlines in May 1949, well ahead of the generally anticipated schedule.

Early in 1949, a commission composed of representatives of the various government departments concerned was charged with drawing up a draft Civil Aviation Code, as well as regulations to govern civil air affairs. Until this project can be concluded and officially approved, however, aviation matters will continue to be administered by directive and decree. Government action taken to date includes reclassification of Argentine airports to conform with ICAO recommendations, establishment of a new scale of landing charges, and issuance by decree of aircraft registration regulations.

b. Regulation of Argentine Airlines.

In accordance with the first item of the Basic Air Policy, four mixed airline companies were decreed early in 1946. FAMA (30 percent government-owned) operated only international services, while Aeroposta, ALFA, and ZONDA (each 20 percent government-owned) provided primarily domestic service. Government control over management and operations was so rigid, however, that the private interests were unable to exercise effectively their prerogatives, with the result that these companies never actually operated as mixed companies. On the pretext that this form of organization was uneconomic and had caused severe financial losses (covered by government subsidy), nationalization of the mixed companies was decreed in May 1949. All private shares were paid off and operational reorganization designed to bring about the desired economies was announced in October 1949.(See Section 4, Airlines.) There has been no foreign capital participation in Argentine airlines since the end of the war.

Non-scheduled operators are definitely discouraged and permits are issued only when the services to be performed are of such a nature that they cannot be conducted by the scheduled carriers.

Direct government control over airline operations has effectively prevented competition within the country. Prior to nationalization and reorganization of the Argentine airline network, competition was avoided by limiting the number of air transport companies and fixing the areas within which each was to operate. Each of the three domestic airlines was assigned to a specific region. Although this policy avoided competition, it also prevented realization of a unified national air network. Reorganization measures, however, have combined the three former domestic airlines into a single carrier providing improved service.

Regulation of Foreign Airlines.

Argentina terminated all cabotage rights for foreign airlines on 2 January 1947. The rights now enjoyed in Argentina by foreign airlines are determined on the basis of formal bilateral air agreements. The "regional (international) cabotage" policy of Argentina is discussed below in Section 3 under the heading "International Civil Aviation Policy."

d. Promotion of Other Civil Aviation Activity.

In compliance with the Basic Air Policy, all airports and air navigational facilities in Argentina have become the property of the government and are controlled by the Ministry of Air. This also applies to meteorological stations and aerial cartographic offices. Under the Argentine Government's five-year plan of 1947, the State has undertaken an extensive airport building and development program.

Aero club training and flying is facilitated by substantial government subsidy and technical aid. The State, however, retains strict and complete control over these operations, which are designed to fit into the pattern of military training. All other aeronautical training is under direct military supervision.

While Argentine aviation policy theoretically encourages private investors to participate in the aircraft manufacturing industry, virtually all of this function is actually performed by the State. Argentina's announced objective is to build a self-sufficient aircraft manufacturing industry by 1951. It will be many years, however, before Argentina can approach this goal. In the meantime, all transport aircraft must be purchased abroad.

A lack of modern machine tools, technical and scientific knowledge, and skilled labor has impeded Argentine aircraft manufacturing efforts to date. The principal emphasis of the research and construction program has been placed on military aircraft development, which absorbs the major portion of the limited available resources. A number of aviation scientists from several European countries, for example, are working almost exclusively on military aircraft projects. Moreover, the Argentine Government has made poor use of the many skilled Italian workers who have recently immigrated.

While many Argentine industrial plants contribute indirectly to aircraft manufacture, only three or four are engaged in the final production of aircraft. Of these, only two are private organizations and their limited output is devoted to small aircraft. These concerns are: Petrolini Hermanes, S.A., which has built a number of 150-hp. tandem trainers, and IMPA (Industria Metalurgica Plastica Argentina), which is at present doing assembly work and manufacture of small parts. A twinengine five-passenger transport is reportedly under construction by the latter. Argentina's productive capacity, therefore, is centered almost entirely in the projects of the Aerotechnical Institute at Cordoba. This governmentoperated enterprise was originally established principally for research and development, but the lack of government encouragement and assistance to private concerns has resulted in Cordoba's assumption of virtually the entire construction burden. Its projects are now almost exclusively military, although its future program includes construction of a twinengine ten-passenger transport and a prototype four-engine transport. Argentina, however, does not yet possess adequate equipment to make the necessary high-stress material and structural tests for the production of transport aircraft comparable to those now being produced by the US and UK. Although Cordoba has been represented by the Argentine Government as the nucleus of a great national aircraft industry, it is possible that its principal mission for some time to come will actually be to develop the technical knowledge

required in Argentina for the effective purchase of foreign aircraft.

3. International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

In order to minimize foreign competition with its international carrier, FAMA, Argentina has not only consistently resisted granting Fifth Freedom traffic rights, but has also attempted to protect FAMA by seeking air agreements on the basis of a predetermined division of traffic. Some Argentine agreements have gained advantages for its carrier in this respect, but, in general, Argentina has been forced to accede to more liberal agreements granting full traffic rights in order to secure satisfactory reciprocal rights.

Under its "regional (or international) cabotage" theory (decreed 12 September 1947, although pronounced and promoted earlier), Argentina attempted to create and become the leader of a regional bloc including Chile, Uruguay, Paraguay, Peru, and Bolivia, in which all mail and passenger traffic between points within the region would be reserved to airlines of the countries comprising the bloc. However, Argentine efforts to create such a restrictive bloc within the neighboring area were effectively frustrated by the defection of Chile. which concluded a full Five Freedoms agreement with the US in May 1947, and failed to support Argentine attempts to secure international recognition of the regional bloc. Argentina itself was forced to modify its position in negotiations with the US and also concluded a Fifth Freedom agreement in May 1947. This agreement, however, has never been fully effective as a result of Argentine intransigence with respect to conclusion of the requisite route annex to the agreement. In view of FAMA's present requirement for US landing rights, Argentine obstructionism may soon be withdrawn.

Argentina has concluded restrictive type biiateral agreements with the UK (May 1946), Portugal and Spain. Although the agreements with France and Italy may also be susceptible of restrictive interpretation, other Argentine agreements, including those with the Netherlands and the Scandinavian countries, are of a liberal nature generally similar to that concluded with the US. (See attached chart on Latin American bilateral air agreements.)

International Organizations.

Argentina was the only Latin American country not invited to the 1944 Chicago Conference at which the Convention establishing ICAO was adopted. Since it adhered to the Convention on 4 June 1946, however, Argentina has participated actively in ICAO. Argentina's international airline, FAMA, is an active member of the International Air Transport Association (IATA).

c. US Technical Assistance,

Because of its Axis-oriented policy during World War II, Argentina did not benefit from the US-sponsored Inter-American aviation training and technical assistance programs. Moreover, it has not taken advantage of the opportunity to request US air or technical missions during the postwar period.

4. Airlines.

a. Argentine Scheduled Airlines.

Before 1945, the airlines of Argentina were wholly privately owned. The Argentine Air Policy Law of 1945, however, made government participation in the airlines compulsory. Under this and subsequent decrees, three domestic carriers and one international airline were established. Until nationalization of these airlines in May 1949, the government held 20 percent of the capital of the domestic mixed companies, Aeroposta, ALFA, and ZONDA, and 30 percent of the capital of FAMA, the international "chosen instrument." The Dodero shipping and trading interests held a large part of the private stock of these companies.

Nationalization of the mixed companies, involving sale of all private shares to the government was decreed in May 1949, ostensibly because the mixed-company form of organization was uneconomic and resulted in severe financial losses which the state had to assume.

In order further to reduce administrative costs and improve services, the Argentine Government in November 1949 initiated an extensive reorganization of the nationalized airlines. All four carriers were merged into a single state entity known as Aerolineas Argentinas. FAMA continues to be the instrument for transoceanic and major international operations, while domestic and regional international services are conducted under the name of Aeroposta. ALFA and ZONDA have ceased to exist. Until the necessary changes in power plants, panel instrumentation, and radio equipment can be effected to make the equipment of the three former airlines interchangeable, operations will continue very much as in the past although functioning under a single administration and management.

The military air transport line, LADE, has been maintained for pioneering new routes, for relieving the load on internal routes at peak traffic periods, and for operation of "national interest" services of little commercial interest to the regular airlines.

Dollar exchange difficulties have seriously hampered Argentine efforts to acquire and maintain new US equipment. Utilization of FAMA's DC-6 aircraft has been severely restricted by lack of spare parts. An Argentine order for five Convair 240 aircraft, moreover, has been subject to extended negotiations and has not yet been fulfilled because of lack of dollar exchange.

Aeroposta (Empresa Aerocomercial del Estado Aeroposta).

Routes: Aeroposta serves the southern portion of Argentina, below an arbitrary line extending from Buenos Aires in a generally southwest direction to the Chilean boundary. This area includes the agricultural and sheep-raising areas, as well as the Argentine lake region.

Equipment:

6 DC-3

2 C-47

5 JU-52/3 m

Ownership: Government. Formerly a mixed company, re-organized in 1947 from an earlier privately-owned Aeroposta.

(2) ALFA (Empresa Aerocomercial del Estado ALFA).

Routes: ALFA serves the northeastern part of Argentina, with Buenos Aires as the southern terminus. International routes are operated to Asuncion and Montevideo.

AIRLINES OF ARGENTINA

(October, 1949)

(0010001, 1010 /							
Airline	Unduplicated Route Miles*	Scheduled Miles per Week	Number of Aircraft (Various Types)	Ownership			
AEROPOSTA	4,089	36,862	13	100% Govt.			
ALFA	2,976	18,658	26	100% Govt.			
ZONDA	2,185	37,868	17	100% Govt.			
LADE	1,886	12,812	21	100% Govt.			
FAMA	9,166	44,876	20	100% Govt.			
TOTAL	20,302	151,040	97				

^{*} The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

ORE Tr-350

Equipment:

- 5 DC-3
- 2 Beechcraft C-45
- 6 Cessna C-78
- 2 Stinson Voyager
- 1 Grumman Goose
- 6 Noorduyn Norseman
- 4 Short Sandringham

Ownership: Government. Formerly a mixed company, reorganized in 1946 from the private "Corporacion."

(3) ZONDA (Empresa Aerocomercial del Estado ZONDA).

Routes: ZONDA serves the densely populated agricultural region of central Argentina with three routes, and the sparsely populated northwestern region with one route. ZONDA has taken over the cabotage services formerly provided by the US airline PANAGRA, on two routes: Buenos Aires-Cordoba-Mendoza; and Buenos Aires-Cordoba-Tucuman-Salta.

An international route is also operated, as an extension of the Buenos Aires-Mendoza route, to Santiago, Chile. With this route, ZONDA supplements FAMA's Buenos Aires, Santiago nonstop service by providing international service to the intermediate cities.

Equipment:

16 DC-3

1 Avro Anson

Ownership: Government. Formerly a mixed company set up in February 1946.

(4) LADE (Lineas Aereas del Estado)

Routes: LADE was established to operate feeder routes throughout Argentina, supplementing the trunk routes of Aeroposta, ALFA, and ZONDA. Operations are at present confined to the central part of the country, which includes the entire pampas agricultural region, except for one route extending into the foothills of the Andes at Bariloche and San Juan.

Equipment: (Not included in the summary table of Latin American airline equipment, since LADE is operated by the Argentine Air Force and uses some Air Force transport planes.)

- 1 DC-3 ·
- 1 Lockheed Electra
- 15 JU-52 3 m
- 2 Dewoitine 338
- 2 Dewoitine 333

Ownership: Government. Preceded by another airline of the same name, also operated by the Air Force. The routes of the old LADE have been taken over by other airlines, and the present LADE has established new routes.

(5) FAMA (Empresa Aerocomercial del Estado FAMA).

Routes: As Argentina's designated "chosen instrument," FAMA has the right to operate

all international routes. It operates all the long distance international services, but several routes to neighboring countries have been allocated to the "domestic" airlines.

FAMA's intercontinental routes connect Buenos Aires with the capitals of Spain, Italy, France, and the UK. These connections are made over two routes, both having a segment in common as far as Madrid (Buenos Aires-Rio de Janeiro-Natal-Dakar-Villa Cisneros-Madrid). At Madrid the routes branch, one continuing to Paris and London, the other to Rome. It is planned to extend the latter route to the Near East. FAMA has an application pending before the US Civil Aeronautics Board for a route from Buenos Aires to New York via Sao Paulo or Rio de Janeiro, Belem, Port of Spain, and Habana. Continental routes operated by FAMA are: Buenos Aires-Santiago, Chile, and Buenos Aires-Porto Alegre-Sao Paulo-Rio de Janeiro.

Equipment:

- 6 DC-6
- 6 DC-4
- 5 Vickers Viking
- 2 Avro York
- 1 Lancastrian

Ownership: Government. Formerly a mixed company set up in February 1946. FAMA is

a member of the International Air Transport Association.

b. Foreign Scheduled Airlines.

Argentina is served by two US companies, Pan American World Airways (via the east coast of South America) and PANAGRA (via the west coast). Moreover, a third US airline, Braniff International Airways, hopes to extend its Latin American service to Buenos Aires, via Asuncion, in the near future.° The following other foreign operators also serve Argentina:

European:

BOAC (British Overseas Airways Corporation) (via both coasts)
Air France
KLM (Royal Dutch Airlines)
SAS (Scandinavian Airways System)
ALITALIA (Italy)
IBERIA (Spain)

Latin America:

Cruzeiro do Sul (Brazil) Panair do Brasil CAUSA (Uruguay) LAN (Chile)

Braniff service over this route began during June 1950.



APPENDIX B

BOLIVIA

Government Organization for Civil Aviation.

Civil aviation in Bolivia is the responsibility of a Director General of Civil and Commercial Aeronautics acting under the jurisdiction of the Minister of Public Works and Communication. A Special Aeronautics Commission, headed by the Foreign Minister and including other present and past members of the government, was appointed in May 1948, to study the aviation scene in Bolivia. Its report was submitted in April 1949, but has not yet been approved by the Cabinet. With respect to administration of Bolivian civil aviation, the report recommends creation of a governmentcontrolled airport administration authority, which would gradually assume control of all Bolivian airports, and establishment of a national council of aviation similar to the US Civil Aeronautics Board.

2. Domestic Civil Aviation Policy.

The report of the Special Aeronautics Commission represents the thinking of officials whose opinions carry considerable weight with respect to air matters and hence is a fairly accurate guide to Bolivian air policy. In addition to its recommendations concerning administration, the Commission also recommended that the surplus transport aircraft of the military Air Transport Squadron (ETA), which has flown some routes commercially, should be transferred either to the principal established airline, Lloyd Aero Boliviano (LAB), or to a new government-controlled commercial company. The Commission indicated, however, that it preferred creation of a new Bolivian airline, which would not compete with LAB over the same routes. The services now operated within the country by the US carrier, PANAGRA, would not be adversely affected. The report comments cautiously that cabotage, in principle, should be reserved for domestic companies, but that circumstances may make it desirable to depart from this principle; therefore no rigidly nationalistic policy should be adopted. Subsidization is endorsed as an essential means of shaping the development of the industry and of giving it the financial support necessary to assure a reasonable profit. Competition, the report points out, is desirable but must be carefully controlled in the interest-of both the public and the aviation industry.

a. Civil Aviation Legislation.

The administration and regulation of aviation in Bolivia was organized under the basic law of 25 October 1947, which transferred control over Bolivian civil aviation from military to civil authorities, and established the Directorate General of Civil and Commercial Aviation. A Decree of 20 May 1948 and a Supreme Resolution of 7 August 1948 supplemented this law. New aviation regulations prepared by the Directorate have not yet been approved. Government relations with the domestic and international airlines are established on a contract basis.

b. Regulation of Bolivian Airlines.

Bolivian policy favors government participation in airline companies, as reflected by the above-mentioned report and by the government's present ownership of a 55 percent interest in LAB. Subsidization of airlines (LAB and PANAGRA), air facilities and aero clubs has been practiced in the past and appears to be an accepted policy. Nationalization of Bolivian airlines is recognized as being beyond Bolivia's financial means, however, and probably would not be attempted except in an emergency. Controlled competition is favored at present, although LAB enjoyed a monopoly of domestic air services (PANAGRA cabotage services excepted) until flight authorization was granted the Bolivian Development Corporation in September 1947.

1.54

Regulation of Foreign Airlines.

Bolivia and Ecuador are the only Latin American countries which still permit foreign airlines to operate cabotage services. The US airline, PANAGRA, serves some eight towns within Bolivia in addition to its international route through Bolivia, which stops only at La Paz. This privilege is interpreted by Bolivia as a temporary concession, until such time as the domestic airlines are in a position to extend their services sufficiently to replace the foreign cabotage services.

d. Promotion of Other Civil Aviation Activity.

By the same law (25 October 1947) which created the Directorate General of Civil and Commercial Aviation, the executive branch of the Bolivian Government was authorized to proceed with the expropriation of air strips built within the country by private enterprise. The expropriated fields belong to the State, which has authorized LAB and PANAGRA to build facilities and administer the airports under contract; including some subsidy. According to LAB's present contract with the government, its twenty airfields will pass to the operational control of the State on 31 December 1951, with no compensation for the investments made. PANAGRA will be compensated for the investments it has made, whether its facilities are taken over before or upon expiration of its present contract (which runs to 1 April 1967).

There is no airframe or engine industry in Bolivia.

International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

Because of Bolivia's landlocked position, civil aviation is of key importance to the country. Bolivian policy with respect to international aviation has favored almost complete freedom of the air. The two bilateral air agreements concluded by Bolivia have been with Chile and the US and are both Fifth Freedom agreements.

b. International Organizations.

Bolivia is a member of the International Civil Aviation Organization (ICAO), but has lacked the funds to send a delegation to most ICAO meetings. Furthermore, it was among four Latin American members whose voting power was suspended by the 1949 ICAO Assembly for failure to meet their financial obligations.

c. US Technical Assistance.

A CAA technical assistance mission has been assigned to Bolivia since early in 1948.

Airlines.

Domestic services in Bolivia are provided by LAB, PANAGRA, ETA, and the Air Transport Company of the Bolivian Development Corporation.

LAB was organized in 1925 and operated under German influence until 1941, when the Bolivian Government acquired 48 percent of the stock. The company was operated under contract until 1946 by PANAGRA, which put LAB operations on an efficient, safe basis. Upon termination of this contract, the company was partially reorganized and the government assumed a controlling interest of the stock.

ETA has been ambitious to use its eight DC-3's in expanded commercial operations within Bolivia. The Bolivian Development Corporation service, which uses two C-46 cargo planes, is a minor operation almost entirely limited to the La Paz-Reyes route. If accepted, the Special Aeronautics Commission's recommendation that the equipment of both ETA and the Development Corporation be transferred to LAB or to a new commercial company controlled by the government will reduce the possibility of competition in commercial air transport between the Defense Ministry (which controls ETA) and the Ministry of Public Works (which controls LAB and the aviation activities of the Development Corporation). Establishment of a new commercial air transport company, which the Commission considered preferable, would create indirect and controlled competition for LAB, with both carriers under the jurisdiction of the same government regulatory bodies.

a. Bolivian Scheduled Airlines.

LAB (Lloyd Aereo Boliviano)

Unduplicated Route Miles 4,010 Miles Scheduled Per Week 15,932 Routes: LAB operates only within Bolivia, its routes extending the length of Bolivia from north to south, and from La Paz in the west to Santa Cruz in the east. The western part of LAB's network serves principally the populous "altiplano" region; the eastern part of its network serves the lowlands from near the Brazilian border in the north to the Argentine border in the south.

Equipment:

7 DC-3 1 C-46

(During the recent revolt in Bolivia, 1 DC-3 was destroyed and two others were flown to Argentina by the rebels. As of October 1949 LAB had only 4 DC-3 aircraft and 1 C-46 available for service).

Ownership:

Government—55 percent Nationals—25 percent US (PANAGRA)—20 percent

b. PANAGRA.

In addition to its international routes, PANAGRA serves the eastern part of Bolivia over two cabotage routes extending to the Brazilian border and thence to Campo Grande, Brazil.

Foreign Scheduled Airlines.

The international routes of PANAGRA connect Bolivia with Peru, Chile, Argentina, and Brazil.

Early in 1949, a second US airline, Braniff Airways, instituted its west coast service (Balboa-Guayaquil-Lima-La Paz) and in March established a non-stop Lima-Rio de Janeiro service overflying Bolivia. Panair do Brasil, which plans to operate a reciprocal Rio de Janeiro-Lima service overflying Bolivia, has not yet begun operations over this route.

APPENDIX C

BRAZIL

Government Organization for Civil Aviation.

In order to fulfill the provisions of the Brazilian Air Code, an Air Ministry was created on 20 January 1941 to direct all aviation activity in Brazil, both civil and military. Control over civil air affairs was vested in various divisions of the Air Ministry having the following general functions:

- (a) Directory of Civil Aeronautics—responsible for all legal, technical, and administrative problems except the operational control of air traffic; inspects aviation clubs, air schools and air transport companies, and issues certificates and licenses on the basis of directives from the Directory of Supply.
- (b) Directory of Supply—responsible for inspecting aircraft. This is a military office.
- (c) Directory of Air Routes—responsible for organization and operation of airports, airway traffic control, and communication and meteorological services. This is primarily a military organization.
- (d) Air Staff—a policy and planning agency, which functions only through the Minister of Air.
- (e) Five Air Zone Commanders—military officers primarily concerned with military matters, but exercising authority over civil air affairs in their territories in a manner comparable to that of US Civil Aeronautics Administration regional administrators.

In June 1949, an Air Route Licensing Board was created by the Directory of Civil Aeronautics for certification of domestic airline routes. This body, similar to the US Civil Aeronautics Board, deals with route requests, regulates flight frequencies and traffic stops, and handles "all other questions" of Brazilian air transport.

International air policy is determined by a special committee (the CERNAI), which is dominated by the Air Ministry, although there is token representation of the Foreign Office.

The chart on following page shows the relationship between the various functional units of the Brazilian Air Ministry.

Through its Air Ministry, Brazil has at present probably the most extensive aviation organization of any country in Latin America. The Air Ministry's primarily military character, with military men holding the majority of key posts, is attributable in part to its creation on the eve of war and to the strategic nature of the duties which were pressed upon it during the following four years.

In a decree of 16 September 1946, President Dutra set forth the objectives and responsibilities of the Ministry:

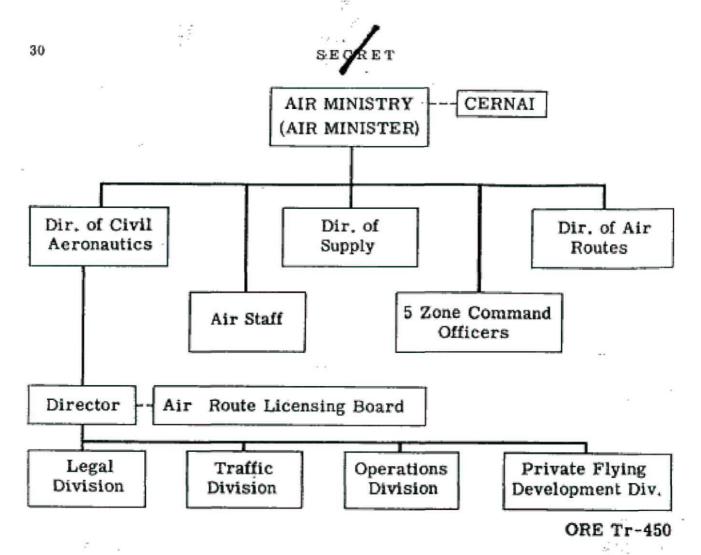
- (a) to cooperate with the other agencies of the government in order to guarantee legal order and to assure the national defense;
- (b) to organize, equip and instruct the Brazilian Air Force;
- (c) to regulate, develop and coordinate civil and commercial aviation;
- (d) to coordinate and stimulate the aeronautical industries of the country.

2. Domestic Civil Aviation Policy.

Civil Aviation Legislation.

Brazilian air policy finds its authority in the previously mentioned laws which created the Air Ministry and outlined its role. These are: (1) Decree Law No. 483 of 8 June 1938, the Brazilian Air Code, promulgated under powers delegated to the President of the Republic by Article 180 of the Constitution; (2) Decree Law No. 2961 of 20 January 1941, which created the Air Ministry to direct all aviation activity, both civil and military; and (3) Decree Law No. 9888 of 16 September 1946, which further defined the purposes and organization of the Air Ministry. Other decrees and orders

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have been issued from time to time supplementing the foregoing legislation.

Regulation of Brazilian Airlines.

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Brazilian national policy encourages the private ownership of airlines and the Brazilian Government has no financial interest in any airline. The State of Rio Grande do Sul, however, has a 21 percent interest in VARIG, and the State of Sao Paulo, a 75 percent share in VASP. It is Brazilian policy, moreover, to assure the control of domestic air transportation enterprises by nationals of Brazil.

Subsidies are granted to airlines by the Brazilian Government solely for the development and operation of unprofitable routes of national interest. Past recipients of this aid have been Cruzeiro, Panair do Brasil, VARIG, and NAB. Since mid-1948, the Directory of Civil Aeronautics has taken firmer action to control competition and prevent a continuation of the severe three-year rate war which resulted from the mushrooming of many small air transport companies after the war. (See

below, Section 4, Brazilian Scheduled Airlines.)

Regulation of Foreign Airlines.

Brazil reserves cabotage traffic for its domestic airlines. Privileges for foreign carriers, including the carriage of international traffic, are negotiated through formal bilateral air agreements, although direct government-company contracts are occasionally resorted to for the use of air facilities and similar privileges.

For the most part, Brazil has pursued a restrictive policy with respect to foreign non-scheduled operators, principally because of its desire to assure maximum utilization of available scheduled airline capacity. Brazil has been willing in principle to grant permission for infrequent US non-scheduled commercial flights between the US and Brazil. On the other hand, it has generally denied flight clearance for US non-scheduled carriers operating between Brazil and a third country, and has resisted granting even technical stop permission on Brazilian territory for flights

neither originating nor terminating in Brazil. Recently, however, Transocean Air Lines of the US secured permission to fly displaced persons from Europe to Recife and Natal under contract with IRO. (See below, Section 4 c. Foreign Non-Scheduled Operations.)

d. Promotion of Other Civil Aviation Activity.

With respect to civil aviation, the Brazilian Government's over-all economy program has cut most heavily into appropriations for airport development. The bulk of construction funds now being made available is devoted principally to maintenance and improvement of military airfields. Therefore, the initiation of a large-scale civil airport development program such as Argentina has undertaken seems rather unlikely in the near future. Even the excellent wartime facilities in Brazil which the Air Ministry has taken over from the US have been poorly maintained. Brazil is limiting itself to "only the indispensable" in improving existing facilities.

Aero club training has been subsidized fairly generously to encourage private flying and thus to build up a reserve of pilots, as well as an air-minded public. The recent economy program, however, has caused a reduction in the subsidies to these clubs, and, at the same time, a relaxation of their ties to the government.

A government-promoted aeronautical engineering school, the first of its kind in Brazil, has been established, advised, and staffed by US nationals. Air Force training schools, meanwhile, continue their extensive programs.

All manufacture of aircraft in Brazil ceased by the end of 1948. Until that time, the government had promoted a few small enterprises: (1) a small government factory at the Galeao Airport in Rio de Janeiro, which assembled trainers from parts shipped from the US; (2) the government-owned and operated Fabrica de Motores near Rio de Janeiro, which assembled a few aircraft engines with parts from the US; and (3) a privately owned, government-subsidized plant at Lagoa Santos near Belo Horizonte, which had a contract to assemble a few AT-6 trainers but has been inoperative since 1947 because of extended litigation. Two privately owned enterprises,

moreover, turned out quite a few sport planes. These concerns were the Cia. Aeronautica Paulista, which produced about 30 two-place "Paulistinha" aircraft during 1948, and the Cia. Nacional de Navegacao Aerea, which turned out about 100 Piper Cub types.

3. International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

Brazil has supported liberal air traffic principles in most of its formal negotiations for air agreements. In principle, it favors the multilateral approach for the negotiation of commercial traffic rights, reserving to bilateral negotiations the airline routes to be operated. Brazilian officials, moreover, have pointed out that their country's support for the Mexican proposal in favor of a restrictive multilateral air agreement at the 1947 Geneva meeting of the International Civil Aviation Organization (ICAO) did not represent actual Brazilian policy.

Brazil bases its bilateral negotiations upon the Bermuda type agreement concluded with the US on 6 September 1946, which was the first agreement of this type concluded by the US with a Latin American country. Since that time, Brazil has signed similar agreements with the UK, Portugal, France, the Netherlands, Norway, Sweden, Denmark, Switzerland, Argentina, Chile, and Lebanon and has nearly completed negotiations with Spain." Parts of the Argentine agreement have been criticized, particularly in Brazil, as being susceptible of restrictive interpretation, with the result that the agreement has not yet been ratified. Otherwise, Brazil has adhered closely to Bermuda principles.

b. International Organizations.

Brazil has been an active member of ICAO since its inception in 1944 and has supported the organization as fully as Brazilian finances have permitted. Panair do Brasil, Cruzeiro, and VARIG are the country's airline members

^{*}The Brazil-Spain Air Transport Agreement, signed 28 November 1949, contains restrictive provisions and principles not found in other Brazilian air agreements. It is considered as representing a change in Brazilian aviation policy in an effort further to protect Brazilian international air services.

of the International Air Transport-Association : (IATA).

c. US Technical Assistance.

Brazil probably benefited more than any other Latin American country from the US Inter-American Aviation Training Program, the Airport Development Program, and other wartime measures of hemisphere cooperation. Many pilots, technicians, and administrative personnel were trained in the US and a string of large, modern air bases was built around Brazil's "bulge" under US sponsorship.

US technical cooperation with Brazil in air affairs is accomplished at present principally through private channels. The Aeronautical Institute at San Jose do Campo near Sao Paulo, for instance, has engaged a number of US aviation technicians and professors under private contract in order to build up a native corps of aeronautical engineers.

4. Airlines.

a. Brazilian Scheduled Airlines.

Brazil's vast area and its lack of adequate surface transport has made the country a fertile field for the development of an extensive and intensive air transport network. A number of circumstances, including the air-mindedness of recent Brazilian governments, their relatively laissez-faire attitude toward air transport, the availability of cheap surplus aircraft in the US, and the technical and financial assistance furnished by the US since 1941, have promoted the great postwar expansion in Brazilian scheduled and non-scheduled air services. As a consequence, however, an excessive number of small companies came into being, creating a condition of serious competitive imbalance and leading to a violent rate war which also threatened the excellent safety record of Brazilian airlines. The financial condition of several companies finally became so acute that the government took measures to control the competition by stricter application of existing regulations and institution of new ones. These steps, including more stringent regulations on capitalization, have forced almost a dozen marginal operators to suspend operations temporarily or permanently, leaving nine scheduled Brazilian airlines, eight non-scheduled, and about ten charter or taxi services still operating in 1949.

Government operating permits were withdrawn 6 June 1949 from ten Brazilian companies which had either never commenced operations or had ceased operating for more than one year. Enforcement of minimum requirements for maintenance and facilities has threatened to force the remaining marginal operators out of business. In addition, one of the oldest scheduled operators in Brazil, NAB, long a recipient of government subsidy for up to 80 percent of its services, also became insolvent during the latter part of 1948.

The six major scheduled airlines have also experienced severe economic difficulties in the postwar period, with the result that Panair do Brasil initiated a strong economy program, Cruzeiro was close to bankruptcy, and Aerovias Brasil suffered serious financial losses. VASP, VARIG, and REAL, however, with their more efficient and conservative managements, were able to minimize their financial losses. Despite the foregoing difficulties, these six airlines managed to retain their tight hold on the Brazilian air traffic market, as indicated in the following table showing the percentage of Brazil's total passenger and freight air mileage being flown by each airline in 1948.

Percentage of Total	Percentage of Total
Passenger-Kilometers	Ton-Kilometers

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	e money and an		*******	 A14 WE10A114
PAB	3	8.2		33.06
Cruzeiro) 1	22.1		25.20
Aerovias	, 1	2.9		18.00
VARIG		6.2		12.40
VASP	3	8.9		3.00
REAL		8.8		2.70
Total,	airlines	97.1		94.36
LAP			14	3.20
Others		2.9		2.44

The outstanding recent development in Brazilian aviation was the purchase of Aerovias Brasil by VASP in 1949, and its resale in 1950 to private Brazilian interests. This acquisition placed VASP, a very wealthy enterprise owned and controlled almost wholly by the city and State of Sao Paulo, temporarily in control of the third ranking Brazilian airline, in terms of passenger-kilometers flown during 1948. The present owners of Aerovias Brasil secured control in February 1950

at double the price paid by VASP a year earlier. Details of the transactions are rather obscure but reportedly involve the political maneuverings of Adhemar de Barros, Governor of Sao Paulo, who is seeking the presidency of Brazil.

An important factor in the Brazilian air transport picture is the air mail and military transport service operated by the Brazilian Air Force (FAB). This service, the Correlo Aereo Nacional (CAN) is strictly a military airline, operated ostensibly with the aim of training FAB pilots. Civilian passengers have been frequently carried by CAN, however, with the result that it has occasionally competed with the scheduled airlines, especially with Panair do Brasil on its service to Asuncion, Paraguay. CAN's operations do not represent any great threat to the civil airlines because the latter and the democratic Brazilian government keep CAN in line. CAN was founded as Correio Aereo Militar by General Eduardo Gomez in 1931, for the operation of

TOTAL

air mail routes within Brazil and to Paraguay which were inoperative at the time, owing, CAN's proponents claimed, to the lack of initiative of Brazilian private capital.

During 1948, CAN flew an average of 60,000 miles per week over a route network of 38,000 miles. Aircraft for these operations were drawn from two air transport groups of the FAB Transport Command whose equipment includes 43 C-47's and 2 C-46's,

(1) Aero Geral (Aero Geral, Ltda.)

Routes: Aero Geral operates along the coast of Brazil between Santos and Natal via Rio de Janeiro, Vitoria, Belmonte, Salvador, Aracaju, Penedo, Maceio, Recife, and Cabedelo.

Equipment: 1 C-46

3 PBY-5

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Ownership: 100 percent private Brazilian. Aero Geral was established in the summer of 1947.

AIRLINES OF BRAZIL (October, 1949) Number Unduplicated Scheduled Airline of Aircraft Ownership Route Miles* Miles per Week (Various Types) Aero Geral 1,572 3,144 4 100% Private 91% Private Aerovias Brasil 12,226 98,597 19 9% U.S. LATB 1,410 5.188 10 100% Private LAP 1,605 13,918 5 100% Private 52% Private Panair de Brasil 21,408 176,764 28 48% U.S. REAL 2.519 60,856 18 100% Private VARIG 2,680 24 40,403 100% Private Cruzeiro 10.187 26 125,401 100% Private SAVAG 633 2 4,809 100% Private VASP 2,892 22 60,450100% Private

73,064

589,530

^{*} The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

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(2) Aerovias Brasil (Empresa de Transportes Aerovias Brasil, S.A.).

Routes:

Domestic: Aerovias Brasil serves the eastern part of Brazil with a more extensive network in that area than any other Brazilian airline. Its system is composed of three main route groups: (a) routes along the Atlantic Coast from Porto Alegre as far north as Belem; (b) interior routes straight north from Sao Paulo to Belem; and (c) a route extending north from Rio de Janeiro through Belo Horizonte to Lapa, where it branches off into two routes, one to Parnaiba and the other to Fortaleza.

International: Aerovias Brasil's only international route at present is to the US, via Caracas and Ciudad Trujillo to Miami, Florida.

Equipment: 19 DC-3

Ownership:

Mile.

91 percent private Brazilian 9 percent US (TWA)

Aerovias was organized in 1942 as a subsidiary of the extensive TACA Airways System (see Panama, Section 4, Airlines). TACA's holdings were bought by Brazilians when the company was reorganized in 1947. In February 1949, VASP acquired an 82 percent interest in Aerovias Brasil, but then resold this share early in 1950 to private Brazilian interests.

(3) LATB (Linha Aerea Transcontinental Brasileira, S.A.).

Routes: LATB operates between Rio de Janeiro and Sao Paulo, and from Rio de Janeiro to Recife along the Brazilian coast.

Equipment:

5 DC-3

1 Beechcraft C-45

4 Avro Anson

Ownership: Believed to be 100 percent private Brazilian. LATB was organized in 1944.

(4) LAP (Linhas Aereas Paulistas, S.A.)

Routes: LAP operates between Rio de Janeiro and Sao Paulo, and along the coast: Rio de Janeiro-Vitoria-Caravelos-Ilheus-Salvador-Aracaju-Maceio-Recife-Campina Grande.

Equipment:

4 DC-3

1 Lockheed Hudson

Ownership: Believed to be 100 percent private Brazilian. LAP was organized in 1943.

(5) PAB (Panair do Brasil, S.A.). Routes:

Domestic: The four main groups of domestic routes operated by PAB are: (a) the coastal route from Porto Alegre to Belem through most of the larger coastal cities; (b) the Amazon route extending from Belem the full length of the river to Iquitos (Peru), with a subsidiary route branching off at Manaus to Porto Velho; (c) a route from Rio de Janeiro north through Belo Horizonte to Belem; and (d) the routes westward from Rio de Janeiro to Campo Grande, Corumba and Cuiaba, and from Rio de Janeiro through Sao Paulo, Curitiba and Iguassu Falls to Asuncion (Paraguay). PAB's remaining domestic routes serve the regions near Sao Paulo, Rio de Janeiro and Belo Horizonte.

International: Within South America, PAB operates international routes to Iquitos, Peru, and to Asuncion, Paraguay, both mentioned above, as well as a third route to Montevideo, Uruguay, and Buenos Aires, Argentina. Outside South America, PAB operates a route originating in Buenos Aires with stops at Montevideo, Rio de Janeiro, Natal, Dakar, and Lisbon. From Lisbon, one branch of this route extends to London, via Paris, another to Istanbul via Madrid and Rome, and a third through Madrid to Zurich and Stuttgart. A PAB application is pending before the US Civil Aeronautics Board for a route to Miami.

Equipment:

5 Lockheed Constellation

.19 DC-3 4 PBY-5

Ownership:

52 percent private Brazilian

48 percent US (PAA)

PAB has been a Pan American Airways (PAA) subsidiary since 1930 (one year after it was founded). PAA held all shares until 1943, when it reduced its interest to 58 percent. In 1947, the present stock ownership ratio was established.

(6) REAL: (Transportes Aereos Real, S.A.). Routes: REAL operates throughout the State of Sao Paulo and extends into the neighboring States of Minas Gerais, Parana, Rio Grande do Sul and the Federal District. It also connects Sao Paulo with Rio de Janeiro, and with many of the southern cities as far down as Porto Alegre.

Equipment:

14 DC-3

2 Lockheed Lodestar

2 Bristol Wayfarer

Ownership: 100 percent private Brazilian. REAL was organized in 1946.

(7) .VARIG (S.A. Empresa de Viacao Aerea Rio Grandense).

Routes: VARIG operates extensive routes to all parts of the State of Rio Grande do Sul, connects Porto Alegre with Rio de Janeiro, via Florianopolis, Curitiba and Sao Paulo, and connects Porto Alegre with Montevideo over an international route.

Equipment:

12 DC-3

7 Lockheed Electra

2 C-46

2 Junkers F-13

1 Noorduyn Norseman

Ownership: 100 percent Brazilian. The State of Rio Grande do Sul is believed to hold about 21 percent of the capital stock. Founded in May 1927, VARIG is Brazil's oldest formally organized airline.

(8) Cruzeiro (Servicos Aereos Cruzeiro do Sul, Ltda.).

Routes: Cruzeiro's domestic network extends along the Brazilian coast from Belem to Porto Alegre. From Belem, a route extends up the Amazon to Manaus. From Rio de Janeiro, a route extends westward through Sao Paulo to Corumba on the Bolivian border. Connections for points in Bolivia are made on this route with the US carrier, PANAGRA, at Campo Grande. From Corumba, Cruzeiro's route continues northward to Cuiaba, Porto Velho, and then to Xapuri, Acre Territory. Cruzeiro also operates an international route from Rio de Janeiro to Buenos Aires, and another, in conjunction with LAV, the Venezuelan airline, from Rio de Janeiro to Caracas. Change of aircraft on the latter route is made

at Boa Vista, Brazil, near the Venezuelan border.*

Equipment:

22 DC-3

2 DC-4

2 Focke-Wulf 200

Ownership: 100 percent private Brazilian. Organized by German interests in 1927, Cruzeiro took its present name when all German influence was eliminated in 1942.

(9) SAVAG (Sociedade Anonima Viacao Aerea Gaucha).

Routes: SAVAG connects Porto Alegre, capital of the State of Rio Grande do Sul, with three cities in the southern part of the State: Bage, Pelotas, and Rio Grande. (These cities are also served by VARIG.)

Equipment:

2 Lockheed Lodestar

(One or two DC-3 aircraft have been lost recently in crashes.)

Ownership: 100 percent private Brazilian. SAVAG was organized in 1946.

(10) VASP (Viacao Aerea Sao Paulo, S.A.). Routes: VASP operates domestic routes only, connecting the City of Sao Paulo with: (1) Rio de Janeiro; (2) Goiania, capital of the State of Goiaz; and (3) the southern and central portions of the State of Sao Paulo.

Equipment:

17 DC-3 5 JU-52

Ownership: 100 percent Brazilian. The State of Sao Paulo, the City of Sao Paulo, and the Bank of the State of Sao Paulo together own approximately a 75 percent controlling interest in VASP.

b. Foreign Scheduled Airlines.

Three US airlines serve Brazil on regular international schedules: Pan American World Airways, from the US to Belem, Rio de Janeiro, Sao Paulo, and Porto Alegre (thence to Montevideo and Buenos Aires); Braniff In-

^{*} Cruzeiro was granted a Foreign Air Carrier permit by the US CAB on 10 February 1950 authorizing it to operate service to Washington and New York via intermediate points in Trinidad, Puerto Rico and the Dominican Republic. This service had not commenced by June 1950.

ternational Airways, from the US with a nonstop Lima-Rio de Janeiro service, inaugurated early in 1949; and PANAGRA, from Bolivia to Campo Grande in the west of Brazil.

European airlines and the Brazilian cities they serve en route to Buenos Aires are:

-Recife and Rio de Ja-Air France neiro -Natal and Rio de Alitalia (Italy) Janeiro -Natal, Rio de Janeiro BOAC (British Overand Sao Paulo seas Airways Corporation) -Recife and Rio de KLM (Royal Dutch Janeiro Airlines) -Recife and Rio de SAS (Scandinavian Airway System) Janeiro -Natal Iberia (Spain)

In addition, the Argentine-flag carrier FAMA, stops at Rio de Janeiro and Natal en route to Europe, and the Uruguayan airline, PLUNA, operates between Montevideo and Porto Alegre.

c. Foreign Non-Scheduled Operations.

Transocean Air Lines of the US has obtained Brazilian permission to fly displaced persons under contract with the International Refugee Organization (IRO) from Europe as far as Recife and Natal, where passengers are transferred to Cruzeiro do Sul. (The latter has been acting for some time as Transocean's agent in Brazil.) Transocean expects to make about fifty such trips before this agreement is terminated upon expiration of IRO in March 1950.



APPENDIX D

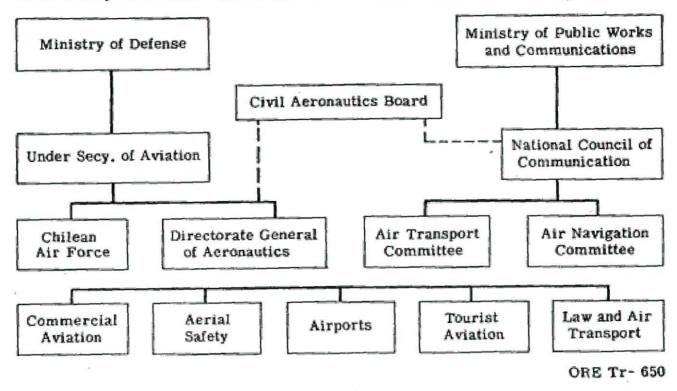
CHILE

Government Organization for Civil Aviation.

Civil aviation in Chile is the responsibility of a Directorate General of Aeronautics (DGA) acting under the jurisdiction of the Minister of National Defense. A Civil Aeronautics Board (CAB), patterned after that of the US, was created during 1948. It is composed of a Director of Aeronautics, who is also chairman of the CAB, a representative of the Foreign Office, a representative of the National Council of Communications (in the Ministry of Public Works and Communications), and two representatives appointed by the President of Chile. In addition, there is a Secretary General of the CAB, who is also chief of the Division of Law and Air Transport in the DGA. The National Council of Communications advises the government on domestic aviation policy through an Air Transport Committee and on interna-

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tional aviation policy through an Air Navigation Committee. Chilean Air Force control of the DGA and of the national airline, LAN (Linea Aerea Nacional), is somewhat tempered by civilian domination of the CAB and the committee of the Communications Council. Nevertheless, conflicts of opinion between civil and military authorities have seriously hindered the progress of civil aviation in Chile during the past few years. The military, for example, has succeeded in holding up legislation which would provide the CAB with autonomy and with funds to execute its functions, including Chilean representation in international civil aviation organizations. Chile's air communications system and its airports are operated and controlled by the air force within the DGA. The relationship between the government agencies concerned with civil aviation is indicated in the following chart:



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2. Domestic Civil Aviation Policy.

a. Civil Aviation Legislation.

The organic law of the Chilean Air Force created a Directorate General of Aeronautics to control commercial and private flying and to enforce rules and regulations of aerial navigation.

The Chilean Civil Aeronautics Board was created by Decree No. 42 of 31 January 1948, as a direct dependency of the Ministry of National Defense. However, additional legislation increasing its autonomy and providing funds for its work has been held up indefinitely. A Civil Aeronautics Code for Chile was approved by the Chamber of Deputies in September 1947, but has not yet been acted upon by the Senate. By a decree published in January 1948, regulations were established governing the granting of concessions and permits by the CAB to commercial airlines.

b. Regulation of Chilean Airlines.

It is Chilean policy to maintain a government-owned and financed airline as the sole scheduled Chilean operator for routes within Chile and to other countries. Though an incependent entity, the national airline, LAN, is owned and subsidized by the government and effectively controlled by the air force, which provides most of the airline's pilots and key officials, and which dominates the government regulatory body, the DGA.

The establishment of additional Chilean airlines must be approved by both the CAB and LAN. Direct competition with LAN is not permitted, although two small companies have recently been authorized to establish scheduled services supplementing LAN operations. Charter and taxi services are also offered by one of these companies, and an alleargo service is being proposed by a third company. The law of 16 February 1949 extended to any other commercial airline the same customs and tax exemption privileges previously enjoyed only by LAN.

c. Regulation of Foreign Airlines.

Until 1946, the US carrier PANAGRA enjoyed cabotage rights in Chile, sharing scheduled service within the country with LAN. Cabotage traffic for foreign airlines, however, is now prohibited. Foreign airlines are allowed to operate scheduled services to Chile on the basis of concessions granted by the Chilean CAB. Other foreign flights over Chilean territory must also be authorized by this body.

d. Promotion of Other Civil Aviation Activity.

LAN is awarded an annual subsidy for airport development. However, the amount of funds allotted to LAN or through other agencies for the development and improvement of air facilities and navigation aids has been very limited. The continued inability of the government to finance adequate facilities and navigational aids for LAN, as well as the reluctance of the air force to cooperate in this respect, has prevented, for example, the establishment of regular all-year service to the south of Santiago. The limited funds which have been available, therefore, have necessarily been used for the improvement, and maintenance of Chile's international airports.

The government is anxious to support and encourage aero clubs, but has been able to subsidize this activity only to a limited extent. In spite of insufficient funds and lack of adequate flying equipment and spare parts, however, aero club flying in Chile has increased rapidly.

There is no aircraft engine or airframe industry in Chile.

International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

Until 1947, it appeared that Chilean air policy endorsed restriction of Fifth Freedom rights for foreign air carriers. In May 1947, however, Chile changed its attitude and concluded a liberal (Bermuda type) air agreement with the US. Chile followed the form of this agreement in other bilateral negotiations shortly after the US agreement was concluded. The civil aviation policy of Chile, therefore, is directly opposed to the Argentine-sponsored principles of a "regional cabotage" bloc and a predetermined division of traffic (see Argentina, Section 3, International Civil Aviation Policy). On the other hand, Chilean policy has had to take into account the country's peculiar geographical position with respect to Latin American trunk airline routes, especially the relatively isolated location of its capital and principal city, Santiago. Recognizing

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that an unrestricted aviation policy toward foreign carriers would probably result in many international flights overflying Chilean territory (en route to Buenos Aires, for example, via the west coast of South America), the Government of Chile has followed an international air transport policy designed to assure service to Chile on the principal airline routes of the area. It has therefore insisted that air carriers crossing Chile make at least one traffic stop within the country, direct or connecting service to Santiago being mandatory.

Chile now has bilateral air transport agreements with the US, the UK, Argentina, Bolivia, Brazil, and Peru.

International Organizations.

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Chile has experienced considerable difficulty in financing delegations to meetings of the International Civil Aviation Organization (ICAO), of which the country has been a member since early 1947. It was not represented, for example, at the important November 1947 ICAO Assembly meeting in Geneva. Some high government circles, particularly the military, are seriously considering Chile's withdrawal from ICAO, allegedly because of the acute shortage of dollar exchange in Chile. The civilian elements concerned with aviation, however, which are more actively promoting civil air activities in the country, are strongly opposed to withdrawal of Chile's international Outstanding among this representation. group, as well as in his contribution to the progress of civil aviation in Chile, is Edward Hamilton, Secretary-General of the Chilean Civil Aeronautics Board and Chief of the Division of Law and Air Transport in the Directorate General of Aeronautics. He has been a leader both in Chilean aviation and in its representation abroad, and has consistently supported the liberal aviation principles advocated throughout the world by the US.

LAN is a member of the International Air Transport Association (IATA).

c. US Technical Assistance.

A US Civil Aviation Technical Assistance Mission, set up in Chile in 1948, submitted numerous recommendations to the Chilean Government for improvement of the country's civil aviation facilities. Chile is now requesting the services of an airways expert when a new US mission can be assigned.

4. Airlines.

a. Chilean Scheduled Airlines.

From 1932, when it was organized, until early 1949, the Chilean national airline LAN (Linea Aerea Nacional), enjoyed a monopoly of Chilean-flag scheduled air transportation. In May and June of 1949, however, concessions were granted to two small Chilean airlines to conduct scheduled services supplementing LAN operations.

A number of factors have hampered LAN's efforts to expand and improve its services. In 1948, for instance, the company was unable to fulfill its new flight schedules when its four new Martin 202 aircraft were grounded for manufacturer's design changes. Overhaul and repair difficulties with these same aircraft again interfered with flight schedules in the summer of 1949. Moreover, lack of adequate airfield, air navigation, and meteorological facilities in the southern part of the country has handicapped LAN's efforts to provide regular service in that region. The company has also been plagued with personnel problems to the extent that a full-scale investigation of the company's operations was recently ordered, with a view to eventual reorganization.

Government subsidization of LAN operations has been increased considerably since 1940. Continued heavy subsidies, however, are required to cover the company's operating deficits. Some economies have been effected through the joint maintenance by LAN and PANAGRA of a meteorological service at Santiago which supplies all aircraft with weather data

LAN (Linea Aerea Nacional). Routes:

Domestic: The main domestic route operated by LAN stretches the full length of Chile from Arica in the north, on the Peruvian border, to Punta Arenas in the extreme south of Chile, on the Straits of Magellan.

International: LAN operates one international route, a non-stop service from Santiago to Buenos Aires, using its Martin 202's. LAN has long planned to inaugurate service to Lima, Peru, and to La Paz, Bolivia, on the basis

AIRLINES OF CHILE

(October, 1949)

Airline	Unduplicated Route Miles*	Scheduled Miles per Week	Number of Aircraft (Various Types)	Ownership
LAN LIPA SUR	2,997 567	26,331 8,964	20 6	100% Govt. 100% Private
TOTAL	3,564	35,295	26	

 The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

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of bilateral air agreements which Chile has with those countries. These plans have been held up, however, principally because of LAN's equipment problems.

Equipment:

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- 4 Martin 202
- 6 DC-3
- 4 Lockheed Lodestar
- 6 Lockheed Electra

LAN is now taking delivery on its order for six De Havilland "Dove" aircraft to be used in "feeder-line" service. These aircraft are being acquired from the UK chiefly because of attractive credit terms and Chile's prevailing dollar shortage.

Ownership: 100 percent Chilean Government,

(2) LIPA-SUR (Linea Aerea Pacifico Sur).
Routes: LIPA-SUR was authorized by the Chilean CAB early in 1948 to operate an air taxi service between Santiago and the tourist districts in the southern lake regions of Chile. In July 1949, it was authorized to conduct scheduled service over this route and was designated by the Chilean CAB to operate between Santiago and San Carlos de Bariloche, Argentina. Authority for Chilean service into this Argentine tourist area is derived from the Argentine-Chilean Air Agreement of December 1948. LIPA-SUR's permit from the Chilean Government for scheduled services is of three years' duration.

Equipment:

- 3 De Havilland Dragon
- 2 Republic Seabee
- 1 Percival Proctor

Ownership: Believed to be 100 percent private Chilean.

(3) Servicio Aereo Austral

Routes: The newly-organized air taxi service has also been authorized to operate in the southern region of Chile.

Equipment:

- 1 De Havilland Dove
- 1 Grumman Widgeon

Ownership: Owned outright by Sr. Carlos A. Avel Krefft, a Chilean national.

Foreign Scheduled Airlines.

PANAGRA, the US carrier which started service to Chile in 1929, continues to be the largest single foreign carrier operating into the country. After many months of intense negotiation with the Chilean Civil Aeronautics Board, an arrangement was worked out in 1948 permitting certain changes in PANAGRA service. This arrangement, however, was concluded only after Chilean fears had been allayed that Santiago would be increasingly bypassed in PANAGRA'S operations from Lima and La Paz to Buenos Aires.

BOAC (British Overseas Airways Corporation), the only European carrier to operate directly to Chile, terminates both its west and east coast services at Santiago, although the service between that city and Buenos Aires is reported to have been temporarily discontinued. In April 1948, LAN signed a standard IATA form inter-line agreement with the Royal Dutch Airlines (KLM), whereby LAN feeds Europe-bound traffic to KLM at Buenos Aires.

A special agreement between LAN and the Argentine carrier, FAMA, provides for a division of capacity on the Santiago-Buenos Aires route. Both airlines fly the route non-stop, while a second Argentine carrier, ZONDA, serves the two cities via Mendoza, Argentina. Under the Chilean-Argentine bilateral air agreement, moreover, a third Argentine airline, Aeroposta, is operating twice-a-week service between Punta Arenas, Chile, and Rio Gallegos, Argentina, where connection is made for flights to other points in Argentina.

APPENDIX E

COLOMBIA

Government Organization for Civil Aviation.

Civil aviation in Colombia is the responsibility of a Directorate of Civil Aeronautics (DAC) acting under the jurisdiction of the Ministry of War. Following a series of air accidents early in 1947 which were attributable largely to lack of government attention to aviation matters, the DAC was reorganized on the model of the US Civil Aeronautics Administration and given increased powers. The expanded organization now includes five departments: Operations, Engineering, Instruction, Economics, and Administration. By a decree on 22 July 1948, a National Council of Transportation was created under the Ministry of Public Works to coordinate and regulate all forms of transportation in Colombia. Its eight members include the Director of Civil Aeronautics and a representative of the domestic airlines. The chart below indicates the relationship between the civil aviation agencies of Colombia.

2. Domestic Civil Aviation Policy.

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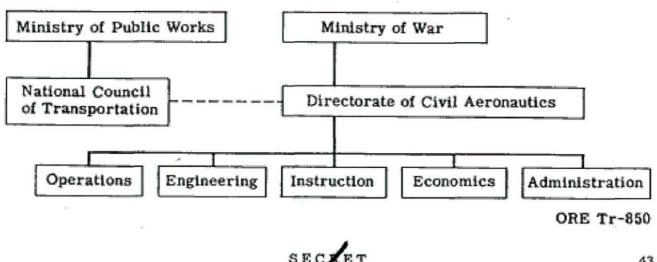
Civil Aviation Legislation.

With the assistance of the US Civil Aviation Mission, revision of the existing Manual of Regulations was effected during 1948, making the current regulations similar to those of the US Civil Aeronautics Administration.

Exchange control regulations have seriously affected international airline operations in Colombia by reducing ticket sales, increasing the costs of operation, and limiting or prohibiting the purchase of new equipment and spare parts.

b. Regulation of Colombian Airlines.

It is Colombian policy to promote domestic air transport enterprises and protect them from outside competition. Colombian airlines are required by law to be at least 51 percent owned by Colombian citizens. With the exception, however, of its small stock ownership (2.8 percent) in the principal Colombian airline, AVIANCA, the Colombian Government does not actively participate in the commercial air transport field. Although the government does not subsidize airlines directly, it provides limited aid through air mail contracts. AVIANCA had a monopoly of Colombian air mail transportation until December 1948, when the government signed a mail contract with a small irregular cargo carrier, SAM, which is largely US-controlled. In effect, AVIANCA's contract makes it the postal



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department for all the domestic air mail which it carries, because the airline is required to maintain its own postal agencies and to transport and deliver domestic air mail. The SAM service, which has been very successful, is also presumably required to act as a postal agency for the mail it carries.

The Directorate of Aeronautics (DAC), the Colombian Government's regulatory agency for civil aviation, has taken little action to control airline competition or regulate rates and routes. As a result, there was a postwar period of intense competition in Colombian air transport, including a severe rate war. The reorganization of the DAC in 1947 improved this situation somewhat, but the rate war continued well into 1948. One of the major airlines, TACA de Colombia, was forced to suspend operations early in 1947 and six smaller carriers suspended services during 1948 because of financial difficulties. Although three small companies, AFRYPESCA, Aerotaxi and SAETA, are also listed as scheduled Colombian carriers, only AVIANCA and LANSA are of much significance as scheduled operators. There are about five other small non-scheduled passenger or cargo services.

c. Regulation of Foreign Airlines.

Cabotage traffic in Colombia is reserved for the domestic airlines. Foreign airlines must receive a Foreign Air Carrier Permit to operate commercially to Colombian cities, although most such operations are conducted in accordance with inter-governmental air agreements. In 1948, Colombia's previously restrictive policy toward foreign non-scheduled operators was considerably relaxed.

Promotion of Other Aviation Activity.

Colombian civil airports have been owned and developed for the most part by Colombian airline companies, but the Government seems to have in mind an eventual nationalization program. Private ownership of all civil airports forced each airline to develop its own facilities, until the government required the airports to be opened to all traffic in 1948. By that time, LANSA had built duplicate facilities at many points also served by AVIANCA, with the result that only the smaller companies were substantially benefited by the change.

The government, however, now controls new airfield construction and six new airports were completed during 1948 under Government sponsorship.

In 1947, the Government of Colombia encouraged the formation of an aeronautical radio organization to operate all air navigation facilities. Since the airlines concerned were unable to agree on the details of such a plan, however, nothing was accomplished, and radio facilities are still maintained by the airline companies. As a result of surveys made by the US Civil Aviation Mission to Colombia in conjunction with Colombian officials, plans are being developed for installing a modern system of traffic control and airways communication.

A law of 1948 authorizes the DAC to grant each Colombian aero club a yearly subsidy. No grants have been made to date, however, since none of the clubs, which are composed for the most part of wealthy persons, has been in need of funds.

The Instituto Tecnico de Aviacion (ITECA) continues to be the only school in Colombia offering courses in all phases of aircraft mechanics and operation. Recently, however, reduced funds have curtailed its program. A plan is now under consideration by the DAC and the Colombian airlines for a training center to develop operating personnel for the airlines. Although the government would contribute financially to such an organization, it would be operated as an independent company.

International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

Colombia has not followed a consistent or well-defined policy with respect to international air transport. Colombian aviation officials have stated that their country's support at international conferences for proposals restricting Fifth Freedom privileges has been based upon Colombia's desire to retain the bilateral bargaining advantage inherent in control of such privileges, rather than upon any policy designed to withhold Fifth Freedom traffic from foreign carriers. Nevertheless, Colombia continues to favor the early conclusion of a multilateral agreement on air rights.

to contract

In spile of efforts to renegotiate the 1929 Claya-Kellogg exchange of notes, the exchange still stands as the only air transport agreement between Colombia and the US. One obstacle to the conclusion of a new bilateral air agreement was removed by the US Civil Aeronautics Board's recent grant of a Bogota-New York route to AVIANCA under authority of the 1929 exchange of notes, thereby placing AVIANCA on a more equal footing with Pan American Airways and PANAGRA.

Colombia's only other bilateral air agreements are Bermuda-type agreements concluded with the UK and the Netherlands.

International Organizations,

Colombia has actively participated in and given firm support to the International Civil Aviation Organization (ICAO). AVIANCA is the only Colombian airline which is a member of the International Air Transport Association (IATA).

c. US Technical Assistance.

The US Civil Aviation Mission Agreement of December 1947 was implemented by the arrival of a US mission in Bogota in March 1948. This group surveyed Colombian needs in air transport control, radio communications, and flight and maintenance personnel training. It participated actively in revising the Manual of Regulations and in establishing procedures for personnel licensing. The Mission has also assisted in work on Aviation Training and Scholarship programs.

4. Airlines.

a. Colombian Scheduled Airlines.

Colombia was the first country in Latin America to enjoy the advantages of air transportation. Shortly after World War I, the Sociedad Colomboa-Alemanda de Transportes Aereos (SCADTA) commenced services linking Bogota with Barranquilla, Colombia's chief port. Since the most beavily populated part of Colombia consists of a series of mountain ranges, separated by valleys in which the main population centers are located, the gradual extension of air transport services to interconnect these centers and intermediate towns

has been of great value in unifying the country.

When SCADTA was reorganized as AVIANCA in 1940, its substantial German influence was removed. Since then, the airline has been jointly owned by Colombian and US interests, the latter being represented by Pan American World Airways (PAA).

Numerous Colombian airlines were formed after World War II. Some have disappeared, while a few others have survived as non-scheduled operators. Five new companies commenced operations during 1948, while six others suspended services. In addition to AVIANCA and LANSA, the two principal scheduled operators in Colombia, three smaller enterprises (SAETA, AFRYPESCA, and Aerotaxi) operate regularly scheduled flights within the country. The respective share of the total Colombian passenger and cargo traffic carried by each domestic airline during 1948 is shown in the following table:

	Percentage of	Percentage of
	Passenger Traffic	Cargo Traffic
AVIANCA	60.3	52.1
LANSA.	28.5	16.6
SAETA	6.5	4.1
AIDA	0.4	0.5
Aerotaxi	0.2	less than .05)
AFRYPESCA (6 months only)	(less than .05)	0.2
SAM	7.7	14.9
LATCO		2.3
Servicio Aereo		1.1
Oil Companies and	others 4.1	8.2

Although PAA holds a large percentage of the stock in AVIANCA (47.7 percent), its ability to control AVIANCA policies and operations is limited by Colombian law, which stipulates that no stockholder, however many shares he may control, may vote more than 25 percent of the total shares represented at any meeting.

Both AVIANCA and LANSA are financially sound and have good safety records. AVI-ANCA will continue to operate most of the radio facilities until the proposed airways communications system is actually established.

 AVIANCA (Aerovias Nacionales de Colombia S.A.).

Routes:

Domestic: One group of AVIANCA routes stretches the full length of Colombia covering

AIRLINES OF COLOMBIA

(October, 1949)

(October, 1010)							
Airline	Unduplicated Route Miles*	Scheduled Miles per Week	Number of Aircraft (various Types)	Ownership			
Avianca	6,962	103,285	32	49.1% Private 2.8% Gov. 47.7% U.S. 0.4% Other			
Lansa	3,644	68,997	15 (99.5% Private 0.5% Foreign			
SAETA	85	2,460	4 (30.0% Avianca 70.0% Private			
Aerotaxi	695	4,218	9	100 % Avianca			
AFRYPESCA	568	1,418	1	Unknown			
TOTAL	11,954	180,378	61				

^{*} The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

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the mountainous central and western regions of the country. In this region are the major cities of Colombia, which are all served by AVIANCA. Another group of routes, served with less frequency, radiates out from Villavicencio and covers the western and central portions of the relatively flat, undeveloped eastern part of the country.

International: AVIANCA's international routes extend to Ecuador, the US, and Panama. The route to Ecuador not only connects the two countries, but extends the full length of Ecuador. In April 1949, AVIANCA commenced twice-weekly operations between Bogota and New York, via Barranquilla and Miami, on the basis of a permit granted by the US Civil Aeronautics Board in December 1948.

Equipment:

- 3 DC-4
- 3 C-54 (cargo)
- 16 DC-3
- 8 C-47 (cargo and passengers)
- 2 PBY-5A

Ownership:

Colombian nationals 49.1 percent
Colombian Government 2.8 percent
Pan American 47.7 percent
Other 0.4 percent
(2) LANSA (Lineas Aereas Nacionales,

Routes:

S.A.).

Domestic: In general, the routes of LANSA parallel those of AVIANCA, serving all the principal cities in the central part of Colombia. LANSA serves only three minor cities, Lorica, Fundacion and Valledupar (all in the north), not also served by AVIANCA.

International: LANSA operates only one international route, from Bogota to Caracas, Venezuela. LANSA has an inter-company traffic agreement with the Venezuelan airline, LAV, on this route.

Equipment: 15 DC-3

Ownership:

Colombian nationals 99.5 percent Foreign interests 0.5 percent

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(3) SAETA (Sociedad Aeronautica de Tolima, S.A.).

Routes: Bogota-Girardot-Ibague

Equipment: 4 C-47 (one passenger and three cargo)

Ownership: Approximately 30 percent owned by AVIANCA. The remainder is believed to be in private Colombian hands.

(4) AEROTAXI (Aerotaxi de Colombia, Ltda.).

Routes: Aerotaxi serves Barranquilla, Cartagena, and about fifteen other cities in the northwestern part of the country.

Equipment:

8 Cessna 190 and 195

1 Cessna 170

Ownership: 100 percent owned by AVIANCA.

(5) AFRYPESCA (Aviacion Refrigeracion y Pesca).

Routes: AFRYPESCA serves approximately eight towns in the northeastern part of Colombia.

Ownership: Unknown Equipment: 1 C-47 b. Foreign Scheduled Airlines.

The following foreign air carriers operate to or through Colombia, serving the cities indicated:

Pan American World Airways: Direct service from Barranquilla to the US, to Panama, and to Venezuela.

Uraba, Medellin and Central Airways (UMCA): Medellin-Panama.

PANAGRA: Cali (on west coast service between Panama and Peru)

KLM (Royal Dutch Airlines): Barranquilla (on Aruba-Panama service)

BOAC (British Overseas Airways Corporation): Barranquilla (en route to Lima, Peru from Kingston, Jamaica)

TACA de Venezuela: Bogota to Caracas service.

c. Foreign Non-Scheduled Operations.

As a result of a decline in import cargo and the virtual non-existence of export cargo for air transport, few US non-scheduled cargo carriers have taken advantage of Colombia's liberalized policy toward this type of operation since 1948,

APPENDIX F

COSTA RICA

Government Organization for Civil Aviation.

A Civil Aviation Board was formed under the Ministry of Government in 1948 to control and regulate matters pertaining to civil and military aviation. The Board, similar to the Civil Aeronautics Board in the US, formulates rules and regulations for the registry of aircraft, licensing of pilots, granting of landing permits, and other matters pertaining to civil aviation.

2. Civil Aviation Legislation.

The Junta Government on 18 October 1949 approved a new general civil aviation law, patterned largely on the civil aeronautics regulations of the US, and some changes suggested by the legal section of the International Civil Aviation Organization (ICAO).

3. Costa Rican Civil Air Policy.

Argonia.

Largely as a result of the political and military difficulties which have beset Costa Rica during the past two years, regulation of civil aviation affairs has been relegated to a rather minor consideration. Air transport, nevertheless, plays a highly important role in the economy of Costa Rica, providing in many cases, the sole means of freight and passenger transportation between the capital and outlying sections of country. International airlines continue to provide the most practical and popular means of passenger transportation between Costa Rica and other countries. International traffic originating and terminating in the capital, San Jose, showed a considerable decrease during 1948 as a result, no doubt, of the unsettled political conditions in Costa Rica. During the revolution of March-April 1948, and again during the attempted invasion from Nicaragua in December 1948, the facilities and equipment of the domestic transport companies were commandeered and put to use for military purposes. None of the international facilities was molested, but for a short time during the revolution international airlines suspended operations to Costa Rica.

There has been considerable discussion of several proposed sites for a new international airport near San Jose. Since the government does not have sufficient funds for the project and would have to depend on a loan from either a US bank, the local air companies, or the World Bank, improvement of the existing airport will probably be undertaken. The Junta of Government, however, has hoped that the US will become interested in the construction of an airfield at San Jose in view of its proximity to the Panama Canal. Other than this project, little expansion of existing facilities is planned.

Costa Rica has concluded no bilateral air transport agreements, and is not a member of the International Civil Aviation Organization (ICAO).

4. Airlines.

a. Costa Rican Scheduled Airlines.

Unless additional new airports are constructed in Costa Rica, domestic air transport operations will be limited to approximately the present pattern. The three domestic airlines which presently serve Costa Rica are: Compania de Transportes Aereos Centro Americanos de Costa Rica (TACA de Costa Rica), Lineas Aereas Costarricenses, S. A. (LACSA), and Aerovias Occidentales, S. A. (Occidentales). Most of the towns and villages in the country with landing facilities are now served by one or more of these airlines, while several points along the Pacific Coast and in Guanacaste are served by two or even three of the domestic companies. A highly uneconomic and intensely competitive condition in several parts of the country has

resulted from the Civil Aviation Board's practice of licensing virtually any route and any frequency requested by the local airlines. Thus, twice a week service by both TACA de Costa Rica and LACSA has, at some points, been on the same day instead of being staggered to furnish more frequent service. In spite of the interruption of services during the periods of fighting in 1948, TACA de Costa Rica lost very little money on route operations and actually made money on the business of their maintenance and overhaul shops in San Jose. On the other hand, LACSA claims to have lost money throughout the period, but more recently it has begun to operate at a profit. By a decree of 15 September 1949 LACSA was designated the Costa Rican flag carrier for international operations and especially to operate routes to Miami, New Orleans, and Brownsville. (As of 20 November 1949, no application had been filed by LACSA to the US CAB for such routes.)

Aerovias Occidentales, an American-owned company, started operations in 1948 with two Boeing 247-D's which it operated on the lucrative west coast route until it became necessary to cannibalize one of the planes to obtain parts for the other. It is a shoestring operation and has had rough going from the start. At the present time the company is doing fairly well financially considering the fact that it

has no shops and only the one plane which generally operates at capacity. In view of the age and condition of its equipment, Occidentales will not be able to operate much longer unless it can obtain new aircraft.

 Occidentales (Aerovias Occidentales, S.A.).

Routes: Occidentales connects San Jose with a few points in the southern part of Costa

Equipment: 1 Boeing 247-D

Ownership: 100 percent private US. Occidentales was established by two US citizens and received official Costa Rican authorization to operate freight and passenger services in 1947. International operations are subject to special approval.

 TACA de Costa Rica (Compania de Transportes Aereos Centro Americanos de Costa Rica).

Routes: TACA de Costa Rica operates from San Jose, Costa Rica's capital, principally to the interior and to numerous points along the Pacific coast. Only one route extends to the Atlantic, serving Puerto Limon and extending along the coast into Panama to Bocas del Toro.

Equipment: 3 DC-3

1 Lockheed Hudson

Ownership: Believed to be 100 percent private Costa Rican. The present TACA de

	AIRLIN	ES OF COS (October, 1949		
Airline	Unduplicated Route Miles*	Scheduled Miles per Week	Number of Aircraft (Various Types)	Ownership
Occidentales TACA	211 609	1,582 8,862	1 4	100% U.S. 100% Private
LACSA	897	5,710	3	40% Private 40% U.S. 20% Gov.
TOTAL	1,717	16,154	8	

The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.



Costa Rica was established in May 1948, following its purchase from the TACA Airways System by two residents of Costa Rica (see Panama, Section 4). There is some evidence, however, that these individuals may be backed by US interests.

 LACSA (Lineas Aereas Costarricenses, S.A.).

Routes: LACSA originates all flights at San Jose and serves principally the northwestern and southwestern parts of Costa Rica. One route, San Jose-Los Chiles, extends to the north, outside these regions. One of the routes to the southwest, moreover, extends into Panama to Puerto Armuelles.

Equipment: 3 DC-3

Ownership: 40 percent private Costa Rican

40 percent US (Pan American World Airways)

20 percent Government of Costa Rica

LACSA was organized as a Pan American affiliate in 1945, receiving official Costa Rican authorization in December of that year.

Foreign Scheduled Airlines.

Costa Rica receives scheduled international airline service from three foreign-flag carriers. Pan American World Airways (PAA) provides a number of services to San Jose, over which traffic is carried to points throughout Central and South America and to the US. The PAA routes serve Costa Rica directly from both Managua, Nicaragua, and Tegucigalpa, Honduras, continuing on to David and Panama City, Panama. KLM (Royal Dutch Airlines) connects San Jose with Panama City and points throughout its extensive Caribbean network. Connections via KLM are also made for Europe. San Jose is also the southern terminus of TACA El Salvador's Central American services, which extend through Managua as far north as Mexico City and New Orleans.



APPENDIX G

CUBA

Government Organization for Civil Aviation.

Cuban civil aviation, as well as various forms of land transport, is regulated by the National Transport Commission (CNT), a dependency of the Ministry of Communications. Although the general functions of the CNT are prescribed by law, there is considerable competition between the Ministry of Communications and the CNT for control over certain aviation matters. With respect to international route questions, final authority appears to rest in the Ministry of Communications (subject to the approval of the President of Cuba). The Inspector General of Airports exercises considerable influence within the CNT. A Civil Aviation Advisory Committee, composed of influential Cuban aviation personnel, is called upon from time to time to act in a purely advisory capacity to the CNT.

Domestic Civil Aviation Policy.

a. Civil Aviation Legislation.

Decree No. 4144 of 3 December 1948 circumscribing the authority of the CNT cancelled Decree No. 3534 of 25 October 1948, but reaffirmed the provisions of previous decrees giving the Ministry of Communications final decision in certain matters handled by the CNT.

Regulation of Cuban Airlines.

The Cuban Government has not yet been faced with the necessity of formulating strict policies or regulations to govern its domestic air services. The Cuban attitude toward airline competition, for example, is not yet clear. Until 1943, Cubana was the only airline operating in Cuba. Since that time, the government has issued permits to both Expreso and Aerovias "Q" to operate routes which would compete with Cubana service. The only route now being operated within the area served by Cubana (domestically, all of the

island of Cuba east of Habana), however, is the Aerovias "Q" route to Varadero. The few competitive routes established within Cuba by Expreso in 1945 have since been discontinued. On the other hand, both Aerovias "Q" and the newly organized Aeropostal operate between Habana and Nueva Gerona, on the Isle of Pines, and Expreso has also served that island, but at Santa Fe.

It is the practice of the National Transport Commission (CNT) to issue permits for international routes to any duly constituted Cuban company. In this connection, the government takes the position that simple majority control by Cubans constitutes Cuban ownership and effective control. It is also the practice of the government to support permit applications by all such Cuban companies in a foreign country, when such applications are based on permits issued by the CNT. The Cuban Government's support of a particular Cuban application for a foreign permit, therefore, does not necessarily indicate that the government favors that airline over any other. On the other hand, political connections appear to determine to a large degree the favors received by Cuban airlines for their operations within the country.

The Cuban Government does not subsidize any Cuban airline directly. However, Aerovias "Q", Expreso, and Aeropostal receive an indirect subsidy in the form of free use of the Cuban Army airfield Camp Colombia, which is more accessible from Habana than the regular commercial airfield Rancho Boyeros.

Because of the importance which the government attaches to continued domestic and international service by Cubana, an impasse in Cubana's labor-management relations in September 1949 prompted the government to intervene. The dispute involved Cubana's plans to resolve its serious financial difficulties through economies in operations (principally

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wage and personnel reductions), which are opposed by certain elements of the government, as well as the labor force and the unions. As a result, the stockholders of Cubana, no longer desiring to continue the company on a losing basis, voted on 31 October 1949 to dissolve and liquidate the company if within one month the Board of Directors had failed to arrange for future operations on a sound financial basis. Pan American World Airways (PAA), moreover, a 48 percent shareholder, had already refused assistance to Cubana until the company is put on a more economic operating basis. It is improbable that the majority of Cubana's stockholders actually desire dissolution of the company at this time, however, and their recent action may have been designed to influence the government to take whatever steps are necessary to assure continued Cubana service. On the other hand, it is doubtful that the government is willing to assume the burden of operating the company, as it is being urged to do by labor in the event that Cubana votes to dissolve. It seems probable, therefore, that the government will effect a compromise solution ensuring the continued operation of Cuba's most important domestic and international air carrier.

Regulation of Foreign Airlines.

Cuba, the gateway to Middle America, has permitted many scheduled international carriers to provide service to and through Habana, both because of the revenue accruing to Cuba from the airlines' traffic, and because the Cuban Government feels that competition among these carriers tends to keep rates down and provides incentives for improved services. Foreign airlines must receive a permit from the National Transport Commission (CNT). Bilateral air agreements concluded by Cuba with other countries govern the terms of permits issued to airlines of those countries.

Non-scheduled carriers, to obtain permission to operate to Cuba, must demonstrate to the CNT that no established scheduled airline can provide the service in question. Cuba has insisted on recognition of its right to prohibit non-scheduled commercial aircraft from landing in Cuba if it so desires. (See Section 3. b.)

d. Promotion of Other Aviation Activity.

Improvements are being made on several airports throughout Cuba. Expansion of the existing runways at Rancho Boyeros, the principal Habana airfield, is now in progress, and the government has encouraged contractors to plan construction of other air facilities, especially a new airport nearer Habana. This encouragement has included the suspension for five years of import duties on materials destined for the construction and operation of airports, as well as the cancellation for ten years of taxes on profits, capital, dividends, and interest for persons or companies constructing and operating airports.

A cooperative aeronautical organization, Aeronautical Radio Company of Cuba (RACSA), was formed by the airlines late in 1947 to coordinate all aviation communications. With the exception of Aerovias "Q", which has its own communications system, all of the major airlines which operate in or through Cuba are members of RACSA and receive its services. Labor difficulties delayed commencement of operations until April 1948 and have recurred intermittently since that time.

The Cuban Pilots Association is composed entirely of the more than 60 Cubana pilots.

There are about seven private flying schools in Cuba.

3. International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

While Cuba believes that certain benefits are to be derived from competition among foreign air carriers flying to Cuba, it has attempted to minimize such competition on those routes flown by its own carriers and to assure Cuban airlines of a certain share of the traffic.

Cuba has concluded only three bilateral air agreements, of which those with the UK and Peru are Bermuda-type. Little is known about the third agreement, signed recently with Mexico, but it is possible that it contains restrictive provisions, in view of Mexico's previous restrictive policy. Under the Mexican agreement, Cuba was granted the Habana-Merida-Vera Cruz route (presently flown by Aerovias "Q"), while Mexico retained a monopoly over the Mexico City-Merida-Habana route.

Intermittent negotiations between the US and Cuba have not produced a bilateral pact, largely because of disagreement over what constitutes substantial ownership or effective control of an airline.

b. International Organizations.

Upon deposit of its unreserved ratification of the Chicago Convention in June 1949, Cuba was admitted as the 54th member of the International Civil Aviation Organization (ICAO). When Cuba had earlier ratified the Convention in April 1947, it had made a reservation on Article 5 in the belief that the Article allowed non-scheduled commercial operators to land in Cuba without obtaining prior approval from Cuban authorities, thus contravening Cuban law. Cuban objections have been withdrawn in view of the current widespread practice of interpreting the "limitations" which may be imposed on such flights as permitting any country to prohibit them. Although not a full-fledged member of ICAO until 1949, Cuba has indicated an active interest in its proceedings by sending observers to most meetings of the organization.

Cubana is a member of the International Air Transport Association.

c. US Technical Assistance.

Various technical specialists have been assigned to Habana for short periods of time by the US Civil Aeronautics Administration.

4. Airlines.

a. Cuban Scheduled Airlines.

Only four Cuban airlines can be considered scheduled operators at present, although there are three or four other Cuban air transport companies attempting to organize scheduled or charter services of various types. The four scheduled airlines are: Cubana, Aerovias "Q", Aeropostal, and Expreso.

From 1929, when it introduced domestic air transportation to Cuba, until 1943, Cubana was the only airline operating in Cuba. It operated exclusively within the country until 1946, when it was authorized by the US to add the important Habana-Miami route to its system. Cubana provides such valuable service to Cuba both domestically and internationally that the government has intervened in an effort to prevent Cubana's current

financial difficulties from forcing dissolution and liquidation of the company.

The wholly Cuban-owned Aerovias "Q", organized in 1945, has also experienced considerable financial difficulty, but is gradually expanding services under the close supervision of Manuel Quevedo, its president and general manager, who is principally responsible for having built Aerovias "Q" into the most stable, dependable, and efficient airline in Cuba. It is still awaiting CAB action on its request for additional lucrative routes to the US. For many months, Aerovias "Q" was the only Cuban carrier to enjoy the privilege of using the military field, Campo Colombia, which is nearer Habana than the regular Habana commercial airport, Rancho Boyeros.

Cuba Aeropostal commenced scheduled operations on its Habana-Isle of Pines route in May 1949. It has recently applied to the US Civil Aeronautics Board (CAB) for a permit to operate scheduled passenger service on its present non-scheduled cargo route to Miami. Aeropostal appears to be backed by the influential Jose M. Aleman, former Cuban senator and cabinet officer. The President of Aeropostal denies that Aleman owns or finances the company, but admits that he has aided in obtaining permits from the government. In any event, Aeropostal apparently has very adequate financial resources.

Expreso inaugurated service on several domestic routes in 1945, but all domestic operations except that to the Isle of Pines were discontinued some time later. Internationally, however, Expreso is continuing to operate more or less regular flights between Habana and Miami, while its application for renewal of its permit for this route is being considered by the CAB. The company's financial situation has steadily deteriorated, and its operations have been unstable. This condition is largely the result of insufficient revenue and the death of a former Expreso benefactor, who had provided funds and equipment for the airline. Expreso's airmail contract, moreover, was cancelled by the Cuban Government in June 1949 for failure to adhere to schedule. A new contract, however, was signed in August, providing an increased rate for transporting mail. Although its present owner is reported-

AIRLINES OF CUBA

(October, 1949)

Airline	Unduplicated Route Miles *	Scheduled Miles perWeek	Number of Aircraft (Various Types)	Ownership
Aerovias "Q"	1,205	12,920	8	100% Private
Cubana	6,587	71,127	10	52% Private 48% U.S.
Aeropostal	83	1,162	7	100% Private
Expreso	325	7,840	2 +	60.46% Private 39,54% U.S.
TOTAL	8,200	93,049	27	

The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

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ly Rafael Mendoza, a close friend of President Prio of Cuba, the favors Expreso expected from its close government connections have not materialized, and its future is very uncertain.

(1) Aerovias "Q", S.A.

Routes: Aerovias "Q" connects Habana with Varadero, a north Cuban resort, and with the Isle of Pines. Two international routes are operated by Aerovias "Q", providing service from Habana to Key West, Florida, and to the Mexican cities of Merida and Vera Cruz. Aerovias "Q" has also applied to the US Civil Aeronautics Board for permission to operate from Habana to Washington and New York, as well as to several additional points in Florida.

Equipment: 5 DC-3

I C-47 (cargo only)

2 C-46

Ownership: 100 percent private Cuban. Aerovias "Q" was organized in 1945 and began scheduled operations the following year.

(2) Cubana (Compania Cubana de Aviacion, S.A.).

Routes: In its domestic services, Cubana operates throughout all of Cuba east of Habana with from one to seven round-trips daily. In addition to Cubana's Habana-Miami international service, the company operates sched-

uled service from Habana to Madrid, with non-traffic stops at Bermuda, the Azores and Portugal.

Equipment: 1 DC-4

7 DC-3

2 Lockheed Electra

Ownership: 52 percent private Cuban

48 percent US (Pan American World Airways)

Cubana was established in 1929 and has been affiliated with Pan American World Airways (PAA) since 1932. In 1945, PAA's interest was reduced from 100 percent to 52 percent and in 1947, in order to satisfy the Cuban Government requirement that effective control of Cuban airlines be retained by the country's nationals, PAA further reduced its holdings to the present figure.

(3) Aeropostal (Cuba Aeropostal, S.A.).

Routes: Aeropostal's only scheduled service is a domestic route from Habana to the Isle of Pines. Aeropostal operates internationally, however, between Habana and Miami in contract cargo service, including the transport of Cuban air mail.

Equipment:

2 DC-3

4 C-46 (cargo only)

i Lockheed Lodestar (company use only) Ownership: 100 percent private Cuban. Aeropostal was organized in August 1943.

(4) Expreso (Expreso Aereo Inter-Americano, S.A.).

Routes: Expreso operates one domestic route, from Habana to the Isle of Pines, serving a different city than that served by Aerovias "Q" and Aeropostal. Expreso also operates a service from Habana to Miami, presently carrying cargo only.

Equipment: Expreso leases 2 C-46 aircraft.

Ownership: 60.46 percent private Cuban.

39.54 percent US (made up of small holdings).

Expreso was founded in 1942 and started service in 1943, on the Habana-Miami route.

b. Foreign Scheduled Airlines.

Cuba is served by eight foreign-flag scheduled carriers, including four US, two European and two Latin American airlines. These carriers, which are listed below, all serve Habana, and Pan American World Airways also operates extensive Caribbean services through Camaguay, Cuba.

Airline	Nationality	y Route
Pan American World Airways	us	US to Caribbean area, Central and South America
Chicago and Southern	US	US to Venezuela
Braniff Interna- tional Airways		US to South America
National Airlines	US	US to Cuba
KLM (Royal Dutch Air- lines)	Nether- lands	Netherlands West Indies, Europe and South America to US
BOAC (British Overseas Air- ways Corpora- tion)	UK	UK to Cuba
CMA	Mexico	Mexico to Cuba
LAV	Venezuela	Venezuela to US

APPENDIX H

DOMINICAN REPUBLIC

Government Organization for Civil Aviation.

The principal civil aviation authority of the Dominican Republic is the Aviation Division (Negociado de Aviacion), which functions under the Secretary of State for War and Navy. Attached to the Aviation Division is an Aeronautical Commission consisting of the following five members selected by the Executive Power: two members from the Military Aviation Corps, a specialist on legal matters, a technical engineer, and a meteorological technician. The functions of the Commission are to cooperate with the Aviation Division in the promotion, development, and regulation of all forms of civil aviation. This Commission is apparently the administrative agency of the Aviation Division.

2. Civil Aviation Legislation.

The functions of the foregoing civil aviation agencies are outlined in a new civil air navigation law (No. 1915) passed in February, 1949. This law constitutes an expansion of previous legislation of 1937 and 1945, and incorporates new features based on the experience of other countries with similar legislation. There appear to be no provisions which constitute a significant change from recognized international and domestic practices in the regulation of civil air transportation.

Civil Aviation Policy.

The Compania Dominicana de Aviacion C. por A. (CDA), organized in 1944, is the only Dominican air transport company ever to operate within the country. It does not receive a direct subsidy from the Government, but has a 20-year contract for the carriage of air mail.

Foreign scheduled airlines must receive special authorization from the Executive Power to operate into the Dominican Republic. Foreign non-scheduled carriers are allowed traffic privileges in the country under the limitations of the new civil air law or regulations made for its application. Cabotage privileges may be acquired only by special permission, which is not known ever to have been granted.

After two years of intermittent negotiations, a Bermuda-type air agreement was finally initialed by the US and the Dominican Republic on 19 July 1949. This is the Dominican Republic's only bilateral air agreement.

The Dominican Republic became a member of the International Civil Aviation Organization (ICAO) upon ratification of the Chicago Convention in January 1946. It has been represented at most ICAO meetings, but has not taken an important part in the proceedings.

4. Airlines.

Dominican Scheduled Airlines.

Organized as a Pan American World Airways (PAA) affiliate in May 1944, Compania Dominicana de Aviacion, C. por A. (CDA), the only airline ever to operate within the country, began commercial operations two months later over two domestic routes out of Cludad Trujillo to Santiago, and to La Romana via San Pedro de Macoris. Other domestic routes have been added gradually. Although CDA has never operated scheduled services outside the Dominican Republic, it does conduct relatively extensive charter operations internationally. Under the terms of the recently concluded US-Dominican Republic bilateral air transport agreement, CDA has been authorized by the Dominican Government to operate services to Miami and to Puerto Rico. PAA personnel manage the company, but Dominican Air Force pilots do the flying.

CDA was operating the following unduplicate route mileage and weekly scheduled mileage as of 1 April 1949:

SERRET

Unduplicated Route Miles Miles Scheduled Per Week 2,622

351

Routes: CDA's network connects Ciudad Trujilio with Barahona and La Romana on the south coast, Monte Cristi and Puerto Plata on the north coast, and San Juan and Santiago in the interior.

Equipment: 2 DC-3

2 C-46

1 Beechcraft C-45

Ownership: 60 percent private Dominican

40 percent US (Pan American

World Airways)

b. Foreign Scheduled Airlines.

The Dominican Republic is served by five foreign scheduled airlines, through which connections may be made to points in the US, Central America, and South America. Pan American World Airways (PAA) serves Ciudad Trujillo on routes from the US (via Camguey, Cuba and on some flights Port-au-Prince, Haiti) to Puerto Rico, points in the Lesser Antilles, Trinidad, and Caracas, Venezuela (via Curacao).

British West Indian Airways (BWIA) connects Ciudad Trujillo with Kingston and points in the Lesser Antilles.

Royal Dutch Airlines (KLM) operates to Ciudad Trujillo from Miami (via Kingston and Port-au-Prince), directly from Curacao, from Caracas (via Aruba), and from Barranquilla, Colombia (also via Aruba).

Aerovias Brasil stops at Ciudad Trujillo on its service from Brazil to Miami (via Port-of-Spain and Caracas).

Caribbean-Atlantic Airways (CAA) operates direct service between Ciudad Trujillo and San Juan, with connections for the Lesser Antilles.

APPENDIX I

ECUADOR

1. Government Organization for Civil Aviation.

Civil aviation in Ecuador is the responsibility of the Department of Civil Aviation (DAC) acting under the jurisdiction of the Ecuadoran Air Force Command. The latter, in turn, is a dependency of the Ministry of Defense. The DAC is understaffed and its activities are limited by the necessity of struggling for funds in a ministry which naturally places defense needs ahead of civilian requirements. Despite these handicaps, the DAC has gradually assumed increased direction over civil aviation matters. It will probably be transferred soon to the Ministry of Public Works and Communications. Creation of an aviation board is under consideration.

2. Domestic Civil Aviation Policy.

a. Civil Aviation Legislation.

The Aerial Traffic Law (No. 946) of 12 September 1936 stipulates that control over domestic and foreign aircraft in Ecuador shall be exercised through domestic legislation and in accordance with international agreements. In 1947 the new administration cancelled the restrictive measures which had imposed heavy taxes on airline income and ticket sales. During 1949, the DAC undertook to prepare new aviation legislation and regulations, for which a need had developed as air services increased after the war. This legislation was to be presented to the Congress in August 1949, but has been tabled for further consideration.

b. Regulation of Domestic Airlines.

Although Ecuador is anxious to develop all phases of civil aviation, that country is second only to Paraguay in its lack of civil aviation development. Ecuador's difficult terrain favors extensive use of air transportation, but lack of funds has prevented adequate development of air services and facilities. Ecuador's

inability to meet the emergency transport requirements of the recent earthquake disaster illustrated the country's need of a more extensive air transport network. The US airline, PANAGRA, and the Colombian carrier, AVIANCA, provide the only dependable service in Ecuador and these airlines serve only a few Ecuadoran cities.

Civil aviation, however, has gradually expanded in Ecuador, especially since government policy became more liberal after the 1947 change of administration. Two Ecuadoran airline companies have been in operation for over two years and a few marginal companies were being organized during 1949. With government policy encouraging expansion, prospects for continued development of the air transport industry in Ecuador are favorable.

Operation of airlines is left to private interests, the government neither subsidizing nor financing commercial air services.

c. Regulation of Foreign Airlines.

Ecuador and Bolivia are the only two Latin American countries permitting foreign airlines to operate cabotage services. Under contract with the Ecuadoran Government, PANAGRA and AVIANCA both serve a half dozen points within Ecuador and connect it with other countries through international services.

PANAGRA's contract to operate in Ecuador, which expired in February 1949 after twenty years in force, was renewed in May 1949 after much discussion with DAC officials. No major difficulties were encountered, but there was some rewording of the contract as a result of the government's desire to secure more control over all air companies.

Braniff Airways, the second carrier designated by the US for west coast service in South America, stops at Guayaquil on its Houston-Rio de Janeiro flights. It recently secured an air mail contract with the Ecuadoran Government.

d. Promotion of Other Aviation Activity.

Development of air facilities has been left to the airline companies, principally because public funds are lacking for that purpose. The limited funds which have been made available to the Ministry of Defense for airfield construction have been used by the Air Command primarily for the development of military airports. A few civil fields, however, are being improved and expanded, and others are gradually being built. Many Ecuadoran towns, for example, have taken the initiative of preparing landing fields in order to attract air services. The Shell Company of Ecuador has also developed a few airstrips for its operations in the country.

Under its new contract, PANAGRA will continue to be charged with radio and traffic control operations, the government retaining a supervisory authority. Presumably PANAGRA's past concern over inadequate compensation for this service, as well as difficulties in enforcement of traffic control regulations, has been satisfied in the new contract.

The Aero Club de Guayaquil has an active ground instruction program, but does little actual flying. Private flying is limited by lack of funds for the acquisition of desired equipment and spare parts.

The Escuela Militar de Aeronautica, subsidized entirely by the Ecuadoran and US governments, is the only aviation school in Ecuador, and provides training for the Ecuadoran Air Force (FAE). Its training program has been aided by the personnel of an advisory US Air Force Mission to Ecuador.

A Pilots Union was formed in 1948, comprising civilian pilots, mechanics and navigators, employed by either national or foreign lines within the national territory. This group was organized to increase the professional skills of its members. Although the Union is permitted to seek legislation to this end, its statutes prohibit it from engaging in any other political activity.

There is no airframe or aircraft engine industry in Ecuador.

International Civil Aviation Policy.

Air Traffic Policy and Air Agreements.

Ecuador has encouraged all forms of foreign air transportation to serve the country. Since no Ecuadoran carrier flys international routes, the Government is not concerned over competition from large international airlines. Ecuador's only bilateral air agreement was signed with the US 9 January 1947 and became effective 24 April 1947. It is a Bermudatype agreement.

b. International Organizations.

Ecuador continues to desire membership in the International Civil Aviation Organization, but cannot afford to join.

c. US Technical Assistance.

A US Civil Aviation Mission served in Ecuador on the basis of an agreement signed in December 1947. Negotiations for continuation of this assistance were terminated early in 1949, and a formal request for the return of the mission to Ecuador is now under consideration by the US.

4. Airlines.

a. Ecuadoran Airlines.

Ecuadoran airlines are issued permits to carry passengers and freight in service to designated cities and towns without fixed schedules. Although they are therefore not strictly scheduled operators, service is maintained on a more or less regular basis by the two airlines listed below. There are about four other companies conducting small-scale, non-scheduled operations, and another is about to be organized.*

ATECA (Aero Transporto Ecuatoriano, C.A.).

Routes: ATECA serves Guayaquil, Quito, Manila, and Esmeraldas in competition with Trasandina. In addition, ATECA serves Tulcan in the extreme north on the Colombian border, and Macara in the extreme south on the Peruvian border. The company is also attempting to initiate service to the eastern

^{*} ATECA and TRASANDINA were merged during April 1950 with a recently organized airline SANTA. Operations with 4 C-47's and 1 C-46 are now conducted under the name of SANTA (Sociedad Anonima Nacional de Transportes Aereos). Services nearly duplicate the routes of PANAGRA and Aviganca (see section 4, b.)

AREA (Aerovins Buatorianas, C.A.), another recently organized airline, operates a flourishing business which provides strong competition for SANTA.

AIRLINES OF ECUADOR

(October, 1949)

Airline	Unduplicated Route Miles*	Scheduled Miles per Week	Number of Aircraft (Various Types)	Ownership
ATECA	780	3,128	7	100% Private
Trasandina	629	3,766	1	100% Private
TOTAL	1,409	6,894	8	

 The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

ORE Tr-1250

"Oriente" region of Ecuador, which the government has been anxious to develop, but which is still sparsely populated.

Equipment: 2 C-47

1 Stinson Reliant

3 Stinson Station Wagon

1 Piper Cruiser

Ownership: 100 percent private Ecuadoran.

(2) TRASANDINA (Trasandina Ecuatoriana, C.A.).

Routes: TRASANDINA operates throughout the most populous portion of Ecuador, serving Quito and Esmeraldas in the north, Guayaquil and Manta in the central region, and Cuenca in the south.

Equipment: 1 C-46

Ownership: 100 percent private Ecuadoran.

b. Foreign Airlines.

PANAGRA operates cabotage services connecting the cities of Quito, Guayaquil, Cuenca, Manta, and Esmeraldas, using DC-3 aircraft. It has been designated by the Ecuadoran Government to give radio communication and radio navigational aid to all aircraft in accordance with fixed rates of compensation.

PANAGRA and another US carrier, Braniff International Airways, both operate international service along the west coast of South America, landing at Guayaquil in Ecuador. DC-4 and DC-6 aircraft are used by both airlines.

AVIANCA, the Colombian airline, connects Ecuador with Colombia to the north, and in addition provides scheduled service within Ecuador to Quito, Guayaquil, Cuenca, and Manta, using DC-3 aircraft.

APPENDIX J

EL SALVADOR

Government Organization for Civil Aviation.

Control over civil and military aviation in El Salvador rests with the Chief of Aviation under the Ministry of National Defense.

- 2. Domestic Civil Aviation Policy.
 - a. Civil Aviation Legislation.

Since there are no airlines operating services within El Salvador, there has been little need for legislation on aviation. A few minor matters, such as air mail rates, have been regulated by executive decrees. The Salvadoran Government signed a contract in October 1947 with TACA, S.A. (which was incorporated under the laws of El Salvador in 1939 and is therefore popularly known as TACA El Salvador) designating this airline as its "chosen instrument" for international services. This contract will continue in effect until June 1954.

b. Regulation of Salvadoran Airlines.

In contrast to most of the countries of Central and South America, El Salvador has regarded aviation as of only minor importance to its internal economy, principally because the country's small size makes rapid air transportation unnecessary. El Salvador therefore has few fixed policies toward civil aviation: other than to assure continued international service to the capital, San Salvador. It was this consideration which led to El Salvador's designation of TACA El Salvador, an airline controlled by US interests, as its "chosen instrument" for such service. Largely because of the importance attached to TACA service by El Salvador and other Central American countries, the US Civil Aeronautics Board (CAB) granted this airline a three year permit in March 1949 authorizing operations to the US as a foreign air carrier. The Salvadoran Government interceded in TACA's behalf before the CAB during consideration of the TACA application.

c. Regulation of Foreign Airlines.

El Salvador is served by two foreign-flag scheduled airlines, Pan American World Airways (PAA) of the US and SAHSA of Honduras. The government has opposed the admission of any other scheduled airlines, however, since it feels that the country's air transport requirements are being adequately served by the present carriers. Air cargo potential increased sufficiently after the war, however, for the Salvadoran Government to authorize a US non-scheduled cargo airline to join in the cargo service to the country in 1948.

d. Promotion of Other Aviation Activity.

Although the administration which came to power in December 1948 has passed no laws and made no policy statement respecting civil aviation, it has taken more interest than the previous administration in building up a small, efficient military air force and in promoting the Civil Air Club of El Salvador. The club operates under a permanent concession by the legislature permitting duty-free entry of flying equipment, parts, accessories and gasoline for club members. Only occasional flights have been made, however, and no flight training or ground instruction is given. The government is not known to have given the club any direct financial support.

Weather and radio navigation facilities at San Salvador are owned and operated by PAA.

- International Civil Aviation Policy.
 - a. Air Traffic Policy and Air Agreements.

El Salvador has had no occasion to adopt a fixed air traffic policy and has concluded no bilateral air agreements.

b. International Organizations.

El Salvador is a member of the International Civil Aviation Organization (ICAO) by virtue

SECRET

of adherence to the Chicago Convention in June 1947. It is impossible, however, for El Salvador to appoint delegations with adequate technical qualifications to participate actively in conferences of ICAO and other international organizations. Its delegates are admittedly appointed "in order to help the US in the voting."

c. US Technical Assistance.

A US Air Force mission has been assigned to El Salvador since 1947 and has been assisting with the re-establishment of the Salvadoran Air Force. The current favorable attitude of Salvadoran aviation officials toward the US may be attributed in large part to the influence of this mission.

Airlines.

a. Salvadoran Scheduled Airlines.

TACA, S.A. (or TACA El Salvador), the only airline incorporated in El Salvador, is an operating subsidiary of the US-controlled TACA Airways, S.A., a non-operating holding company in Panama which owns a 98 percent interest in the Salvadoran airline. Prior to the organization of TACA El Salvador in 1939, other Central American operations of the TACA System had emphasized cargo traffic. The inauguration of international passenger service by TACA El Salvador brought TACA into intense competition with PAA's Central American operations, to which TACA subsidiaries had formerly provided only supplementary service.

TACA El Salvador originally served only the Central American countries, but has since expanded operations to the US and Mexico. In May 1948, however, TACA El Salvador signed an agreement with TACA de Honduras under which the latter now actually operates the Central American international routes. International service from El Salvador to Mexico and the US, however, is still operated by TACA El Salvador. It is reported that this policy was directed by the Waterman Steamship Corporation (which controls the holding company, TACA Airways, S.A.), in order that TACA El Salvador might concentrate on the services to Mexico and the US which supplement Waterman's surface transportation operations. TACA El Salvador's present permit to operate to the US as a foreign air carrier was granted by the CAB in February 1949, to be effective for three years. The extent of TACA's operations as of October 1949 is indicated below:

Unduplicated Miles Scheduled Route Miles Per Week

TACA, S.A. (TACA El Salvador) 2.568

23.789

Routes: TACA, S.A. links both El Salvador and Guatemala with Mexico City and New Orleans. These services connect directly with service to the capitals of Costa Rica, Nicaragua, and Honduras, which is operated by TACA de Honduras under contract to and in the name of TACA El Salvador.

Equipment:

2 DC-4

8 DC-3

Ownership: 98 percent owned by TACA Airways, S.A., which in turn is controlled by US interests (Waterman Steamship Corporation).

b. Foreign Scheduled Airlines.

San Salvador, the capital of El Salvador and the only point receiving service in the country, is served on Pan American World Airways' routes which parallel those of TACA, S.A. through most of Central America. The PAA service, in general, is more extensive than that of TACA. Moreover, connections with other PAA routes are made at Mexico City for points in the US, at Merida, Mexico, for Habana and the Caribbean, and at Panama for South America.

Servicio Aereo de Honduras, S.A. (SAHSA) also operates to El Salvador from Tegucigalpa, Honduras, via other points in the latter country.

Foreign Non-Scheduled Operations.

Skytrain Airways, Inc. of New Orleans received a temporary landing permit from the Salvadoran Government in August 1948 and commenced fairly regular cargo flights between New Orleans and El Salvador. This operation soon included as many as two flights weekly, carrying such varied cargoes as livestock and small automobiles.

APPENDIX K

GUATEMALA

Government Organization for Civil Aviation.

Civil aviation activities in Guatemala are under the jurisdiction of the Ministry of Communications and Public Works, acting through its dependency, the Directorate General of Civil Aeronautics (DGAC). The government-owned airline, Compania Guatemalteca de Aviacion (AVIATECA), however, operates under the direction of the Ministry of Economy and Labor. It is being urged by some Guatemalan officials that AVIATECA be transferred to the Ministry of Communications and Public Works, in order to unify governmental control over all phases of civil aviation.

2. Domestic Civil Aviation Policy.

a. Civil Aviation Legislation.

A new basic civil aviation law, based on Venezuela's 1944 Civil Air Law, was made effective by the DGAC on 7 April 1949, after consultation with AVIATECA, other aviation entities in Guatemala, and the foreign airlines serving the country. To supplement this law, new civil air regulations are now being formulated by the DGAC.

Regulation of Guatemalan Airlines.

The Guatemalan Government has granted the wholly government-owned instrument, AVIATECA, a monopoly of all internal freight and passenger traffic. The airline, of course, is heavily subsidized by the government. Since surface transportation in Guatemala is very poor, there is a great need for air charter services to supplement AVIATECA's operations and to accommodate tourists, finca (plantation) owners, businessmen, and others who desire transportation to many isolated parts of the country. To date, however, no firm has been successful in obtaining the required license to operate in this manner. The

government's principal objection to this type of operation seems to be fear of competition with AVIATECA. In actual fact, however, charter services would almost certainly be offered only to points which AVIATECA does not or is not equipped to serve, such as small private landing fields.

c. Regulation of Foreign Airlines.

The concession of Pan American World Airways (PAA) to operate air and ground services in Guatemala is due to expire in 1950. Since the company has a number of bitter opponents scattered throughout the executive and legislative branches of the Guatemalan Government, PAA will probably experience considerable difficulty in renegotiation of its contract. The government has been largely responsible for a number of recent difficulties experienced by PAA with respect to its native employees in Guatemala. Moreover, there are indications that Guatemala will choose to interpret PAA's contract rights in such a manner as to invalidate an agreement providing for compensation to PAA if its facilities should be taken over upon termination of the present contract. This restrictive attitude of the Guatemalan Government may be designed only to harass PAA further. On the other hand, in view of Guatemala's known desire to extend AVIATECA's operations, the government's policy may indicate that pressure is being exerted on PAA as a means of influencing the US Civil Aeronautics Board's decision regarding AVIATECA's current application for a permit to establish scheduled service to the US.

If AVIATECA initiates scheduled service to the US, Guatemala's policy toward both scheduled and non-scheduled foreign airlines will probably become even more restrictive. At present, TACA Airways is the only other scheduled foreign airline serving Guatemala.

d. Promotion of Other Aviation Activity.

Three first-class airports were built by the US during the war under the Airport Development Program: Guatemala City, Puerto Barrios, and San Jose. The latter two have been turned over to the Guatemalan Government by the USAF, while the third is presently in process of being transferred. Each of these three airfields has a 6,000-foot paved runway. Several other good airfields of smaller size are also in operation. Since there is still no air charter service in Guatemala, several isolated finca owners have also cleared small landing strips, have acquired aircraft and have taken flight training in order to improve their transportation situation.

Substantial progress has been made recently in private flying in Guatemala, principally on the initiative of two US nationals who reactivated aero club flying in that country after the war. Their company, known as Aviones Centro-Americanos, was under contract to the Aero Club de Guatemala to operate that club, its flying activities and ground school. The company also acted as local distributor for Cessna aircraft and the products of Continental Motors and Bendix Aviation Corporation. There has been considerable pessimism concerning the future of the excellent training program of this organization since it was announced that management of the club would pass to Guatemalan control at the end of March 1949.

PAA and AVIATECA still jointly maintain the radio aids to navigation in Guatemala, while PAA and the USAF operate meteorological stations. Various arrangements have been proposed for increased Guatemalan participation in these services.

International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

Guatemala has recently assumed a more restrictive attitude toward foreign airlines, particularly since its chosen instrument, AVIA-TECA, has sought to initiate scheduled service over a route to the US. (See Section 2, c.).

Guatemala has no bilateral air transport agreements.

International Organizations.

Guatemala became a member of the International Civil Aviation Organization (ICAO) in April 1947, and has been represented at most meetings of that organization. The country, however, has not taken an active part in ICAO activities. Guatemala is unable independently to supply the air navigation and meteorological aids recommended by ICAO, but would probably participate in joint support programs for these facilities, with outside assistance.

c. US Technical Assistance.

(See Section 2, d, concerning wartime, USbuilt bases recently turned over to Guatemala.)

Airlines.

a. Guatemalan Scheduled Airlines.

Guatemala's only airline, AVIATECA, is a government-owned entity expropriated by the new administration after the 1944 revolt. It is heavily subsidized, has good maintenance standards, and has achieved an excellent safety record. AVIATECA desires to undertake international services and has applied for a permit to operate to the US, which is now under consideration. Inauguration of these services, however, may also depend on the outcome of AVIATECA's plans to acquire three Martin 202 aircraft.

In October 1949, AVIATECA was operating the following route miles and miles scheduled per week:

> Unduplicated Miles Scheduled Route Miles Per Week 1,490 11,558

AVIATECA (Compania Guatemalteca de Aviacion).

Routes: AVIATECA's routes, which are at present only domestic, are concentrated in the vicinity of Guatemala City, radiating from that city in all directions. Connections are also maintained with a lesser network in the northern part of the country.

Equipment: 6 DC-3

Ownership: 100 percent Guatemalan Government.

b. Foreign Scheduled Airlines.

Pan American World Airways (PAA) and TACA Airways, Inc. both serve Guatemala City from New Orleans, as well as from Mexico City and points in Central America.

c. Foreign Non-Scheduled Operations.

Two US non-scheduled freight carriers operate fairly regular services to Guatemala. Skytrain Airways, Inc. has operated up to two DC-4 flights weekly from New Orleans serving Guatemala and El Salvador, while NATS Air Transportation Service (NATS) of Oakland, California has operated a single C-47 in weekly service originating in Chicago and flying via New York and Miami. The NATS service was originally contracted for by the Guatemalan Government.

APPENDIX L

HAITI

Government Organization for Civil Aviation.

A National Commission for Civil Aviation was created in Haiti in 1948 to function under the jurisdiction of the Secretariat of State for Foreign Affairs. The Commission is composed of representatives of various governmental departments and is charged with the following general responsibilities: (1) to maintain contact with all national and international civil aviation organizations; (2) to advise the government on measures relating to the execution of Haitian aviation laws; and (3) to study and advise the government on all other aviation questions.

The Aviation Corps of the Haitian Armed Forces (Garde d'Haiti) controls and operates Haiti's only domestic air transport service.

2. Civil Aviation Policy.

Until 1943, there were no air services within Haiti. Since that time, Haiti has not permitted a private company to operate domestic air services, reserving air transport as a monopoly of the Haitian Air Corps, principally for military training purposes. As a result, there are no licensed civilian commercial pilots in the country and only ten licensed private pilots.

The country has had no occasion to develop a formal international aviation policy other than to ensure continued adequate service to Port-au-Prince by scheduled international carriers. Port-au-Prince has received such service continuously since 1929. Although Haiti has been a member of the International Civil Aviation Organization (ICAO) since March 1940, its participation in ICAO activities has been negligible. No bilateral air agreements have been concluded by the Haitian Government.

Haiti's only international airport, Bowen Field near Port-au-Prince, is maintained and operated by Pan American World Airways (PAA) under a Haitian Government lease effective until January 1960.

Airlines.

a. Haitian Scheduled Airlines.

There are no civil airlines operating within Haiti, as a result of the Haitian Government's policy of reserving air transport as a monopoly of the Aviation Corps of the Haitian Armed Forces (Garde d'Haiti). The Haitian Air Corps, which combines military training with operation of an airline, was established in May 1943 as an air mail carrier and was authorized in the following year to accept passenger traffic. Revenue derived from the air transport service, which operates under the name "Garde d'Haiti," is devoted principally to the acquisition and maintenance of equipment and to personnel training. The Garde d'Haiti operates three scheduled flights weekly throughout Haiti if payloads are available. Unscheduled freight service is also maintained. Although this carrier has a good safety record, its passenger operations were interrupted during 1944-45 as a result of the poor condition of its flying equipment. Air mail service, however, was continued during this period.

As of October 1949, Haiti's only scheduled airline, the Garde d'Haiti, was operating a network of 474 unduplicated route miles and scheduled 2,570 miles per week.

Garde d'Haiti (Corps d'Aviation de la Garde d'Haiti)

Routes: Garde d'Haiti operates exclusively within Haiti, connecting its capital, Port-au-Prince, with other coastal cities along the country's entire perimeter, as well as with one point in the interior.

SECKET

Equipment:

- 1 C-47
- 2 Beechcraft C-45 (damaged)
- 2 Cessna C-78

Ownership: 100 percent Government of Haiti.

b. Foreign Scheduled Airlines.

Haiti's capital, Port-au-Prince, is served by two foreign scheduled carriers, Pan American World Airways (PAA) and Royal Dutch Airlines (KLM). PAA's Caribbean operations include Haiti on flights from the US to the Dominican Republic and beyond. The KLM route originates at Curacao and touches Haiti en route to Kingston, Jamaica. Connections are maintained by both carriers to other points in Central and South America.

SECKET

APPENDIX M

HONDURAS

Government Organization for Civil Aviation.

Civil aviation in Honduras is regulated and supervised by a civil aviation office which is under the Ministry of War, Navy and Aviation.*

2. Civil Aviation Legislation.

The government recently undertook the revision of the outmoded (1930) civil aviation legislation and air traffic regulations. Little has been accomplished on this project to date, however, partly because some elements in the government object to the use of US legislation and regulations as a model on the grounds that they cannot be adapted to basically different Honduran conditions.**

Honduran Civil Aviation Policy.

All scheduled airlines, national or foreign, must obtain an operating concession authorized by the Congress. Honduras admits foreign non-scheduled operators only if the country of origin grants reciprocal privileges to Honduran non-scheduled carriers. Otherwise the Honduran Government exercises little control over airline operations. The government has a 20 percent interest in the stock of the Pan American World Airways (PAA) affiliate in Honduras, SAHSA, but has an investment in no other domestic or international airline. Honduras does not subsidize any domestic air

transport company; it does, however, grant air mail contracts, but in most cases the flat monthly fee which the government pays does not cover expenses. Since many points for which air mail service is contracted do not have airports, the airlines must frequently subcontract with connecting surface carriers to provide the service.

Although facilities are crude and flying hazardous, the government has appropriated very little money to improve airfields or lessen the hazards of flying. With the exception of the small appropriations made for the maintenance of military aviation facilities, fields and facilities have been built and maintained by the airlines.

Honduras has concluded no bilateral air transport agreements, and is not a member of the International Civil Aviation Organization (ICAO).

Airlines.

a. Honduran Scheduled Airlines.

Honduras is served by two domestic airlines and two international carriers. Passenger and cargo traffic over Honduras' intensive airline network has grown with surprising rapidity during the past few years. There is, however, intense and sometimes bitter competition between the two domestic scheduled operators, the PAA affiliate, SAHSA, and the former TACA System Affiliate—now privately owned—TACA de Honduras. Both have improved their services and equipment, and are apparently realizing a modest profit. Twenty-two towns are served by both, five more by TACA de Honduras, and one more by SAHSA. Although both airlines charge approximately the same rates on most routes, their efforts to agree on a common uniform rate schedule have so far been fruitless. SAHSA has recently been growing more rapidly than TACA de Honduras (which was sold

^{*} The new Honduran aviation law (see note **) provides that civil aviation is to be handled by a Department of Civil Aeronautics which is set up as a dependency of a new Bureau of Aeronautics under the jurisdiction of the Ministry of War, Navy and Aviation.

^{**} A new aviation law, possibly restrictive toward foreign airlines depending on how it is interpreted, was put into effect in March 1950. It reflects, however, the great haste with which it was forced through the legislature by the air force. Many articles are ambiguous or obscure in meaning.

by the TACA system early in 1948 to Honduran citizens), but the latter's position has been enhanced as a result of its contract with TACA El Salvador to operate that airline's Central American international routes, although the service is still conducted under the name of TACA El Salvador.

TAN (Transportes Aereos Nacionales, S.A.), a Honduran non-scheduled freight airline, operates from Honduras to Habana and Miami. TAN is used principally by businessmen and contractors for bringing freight from the US. It does not compete directly with either of the scheduled airlines, since it has confined its operation to freight. TAN has applied to the US Civil Aeronautics Board for a permit to transport passengers, cargo, and mail from Honduras via Habana to Miami.* TAN uses C-46's at present.

 SAHSA (Servicio Aereo de Honduras, S.A.).

Routes: SAHSA's relatively extensive routes include domestic services in the region north of Tegucigalpa, as well as to points along the entire northern coast of Honduras and in the eastern part of the country. SAHSA also operates international services linking Tegucigalpa with Belize, the capital of British Honduras, and San Salvador, the capital of El Salvador.

Equipment: 6 DC-3

Ownership: 40 percent private Honduran 40 percent US (Pan American World Airways)

20 percent Government of Honduras

SAHSA was established as a Pan American affiliate by a 1945 contract with the Honduran Government.

(2) TACA de Honduras (Transportes Aereos Centroamericanos, S.A.).

Routes: TACA de Honduras serves Tegucigalpa and all of the other principal cities in Honduras. An international route is also operated from Nueva Ocotepeque to San Salvador, the capital of El Salvador. TACA de Honduras, moreover, operates international routes from San Salvador south to San Jose, Costa Rica, under contract to and in the name of TACA El Salvador (see El Salvador, Section 4, a.).

Equipment:

8 DC-3

1 Lockheed Hudson

2 Avro Anson

Ownership: Believed to be 100 percent private Honduran. TACA de Honduras was sold by the TACA System to two residents of Honduras in February 1948 (see Panama, Section 4). There is some evidence, however, that these individuals may be backed almost 75 percent by US interests.

	AIRLINES OF HONDURAS (October, 1949)					
Airline	Unduplicated Route Miles*	Scheduled Miles per week	Number of Aircraft (Various Types)	Ownership		
SAHSA	1,266	10,194	6	40% Private 40% U.S. 20% Gov.		
TACA	1,060	9,814	11	100% Private		
TOTAL	2,326	20,008	17			

The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

The CAB granted TAN such a permit for a threeyear period beginning June 1950.



b. Foreign Scheduled Airlines.

Aside from the TACA El Salvador international service through Tegucigalpa, which is actually operated by TACA de Honduras as indicated above, there is only one foreign-flag carrier serving Honduras. Tegucigalpa is served by Pan American World Airways (PAA) over two routes from Guatemala and El Salvador to Nicaragua and Costa Rica. PAA's operations, which compete in Central America with those of TACA El Salvador, provide connections from Honduras to points in the US, as well as throughout Central and South America.

APPENDIX N

MEXICO

Government Organization for Civil Aviation.

Civil aviation in Mexico is under the jurisdiction of the Department of Civil Aeronautics (DAC) in the Ministry of Communications and Public Works.

In July 1949, a commission was created by the DAC to study the civil aviation situation in Mexico and make specific recommendations for reorganizing air transportation, with special attention to the international aspects of the problem. Although this commission is to act only in an advisory and unofficial capacity, its recommendations, when published, will undoubtedly exert considerable influence on the future of Mexican civil aviation.

2. Domestic Civil Aviation Policy.

a. Civil Aviation Legislation.

Air transportation in Mexico is governed by the "Law of General Communications Media and Means of Transportation," which among other matters outlined the governmental organization for civil aviation and provided for the regulation of domestic and foreign airlines. It is required by law that: (1) a majority of the stock of Mexican airlines must be controlled by Mexican citizens; (2) ninety-five percent of the personnel must be Mexicans; and (3) only Mexican pilots may be employed. The DAC grants permits to Mexican airlines in two forms. If an operation for which application has been made appears justified, a one-year experimental permit is issued to allow evaluation of the proposed route. If the airline then desires to continue operating the route, it applies for a permanent concession. Pending a decision on this application by the government, the experimental permit continues in force. Most concessions are granted for the maximum period of thirty years.

b. Regulation of Mexican Airlines.

Although the Mexican Government attempts to protect its airlines from foreign competition, it does almost nothing else to aid the expanding Mexican air transport industry. Mexico does not pay a direct subsidy to any airline. Rates paid for the transportation of mail vary according to the company, but such payments represent only a nominal subsidy. Some relief is also granted in the exemption from import duties of some aviation equipment.

Lack of proper government regulation of commercial aviation has been largely responsible for the establishment of an uneconomic amount of competition over domestic routes. with the result that most of the twenty-eight scheduled or non-scheduled Mexican airlines are losing money. The larger scheduled operators particularly are alarmed over what they term the "air piracy of shoestring airlines." Moreover, Mexico's traffic potential is not sufficient to support the number of airlines which the DAC has allowed. Recent personnel changes in the DAC may improve the situation, but the establishment of a logical airline pattern in Mexico would probably require the elimination of most of the non-scheduled oper-

The Pan American World Airways affiliate, Compania Mexicana de Avlacion, S.A. (CMA), has been favored as Mexico's unofficial "chosen instrument" for most of the time it has operated in Mexico (since 1924). Although CMA has not officially been granted a monopoly of Mexican flag international services, it has been awarded the majority of international routes flown by Mexican carriers. That its influence with the government may be waning, however, is indicated by the fact that Aerovias Guest received the franchise for the coveted route to Madrid and, contrary to the early predictions of its critics in Mexico,

Aerovias Guest appears to be operating efficiently and with a fair margin of profit over this route.

Although Mexican law requires a majority of the stock of domestic airlines to be held by Mexican citizens, this regulation does not appear to be universally enforced, since LAMSA, one of the country's three leading trunk route operators, is a United Air Lines subsidiary wholly owned by US interests.

c. Regulation of Foreign Airlines.

In an effort to promote its airlines, Mexico, to a greater extent than any other Latin American country, has pursued a restrictive international aviation policy which aims to keep foreign airline competition at a minimum (see Section 3, a). Cabotage traffic, moreover, is reserved to Mexican airlines by law.

Foreign airlines receive their permits to operate to Mexico from the DAC. Permits to airlines of countries with which Mexico has concluded bilateral air agreements are issued in accordance with the provisions of these agreements.

d. Promotion of Other Aviation Activity.

Since the Mexican Government has furnished no airway facilities nor meteorological aids and has built only a few airports throughout the Republic, most of the existing facilities have been developed by the airlines with private capital. The apathetic attitude of the government toward such matters led to the establishment in 1945 of the Aeronautical Radio de Mexico, S.A. (ARMSA), a non-profit company organized by the airlines to give radio and weather service to all commercial and private flyers. ARMSA purchased the separately owned facilities and now operates and maintains them, charging the individual airlines a rate proportionate to the amount each uses the facilities. The failure of a number of small, non-scheduled operators to pay this company for its services has been largely responsible for its present indebtedness. For reasons of safety, however, ARMSA has been required by the government to give service to all aircraft, whether the company has been paid or not, and it has received no government assistance in its efforts to collect from its debtors.

In an effort to force Mexican and US airlines to use Petroleos Mexicanos (PEMEX) aviation fuel rather than to import US products, the Mexican Government has repealed a 1939 decree permitting tax-free importation of aviation fuel for civil aviation. In spite of the increased costs, however, the larger airlines are continuing to import US 100-octane fuel, since they claim PEMEX products to be of inferior quality. Moreover, they lack faith in the administration of PEMEX and question the reliability of the company's distribution of aviation fuel to Mexican airports.

Among at least thirty private aeronautical schools or aero club training units in Mexico, the most important is the Escuela de Aviacion Civil "Cinco de Mayo" at Puebla, which offers courses in flight, navigation, meteorology, radio navigation, and related fields. Although this school is supervised and managed directly by the Department of Civil Aeronautics, it has been provided with only meager funds from the government for the purchase of flight and ground school training equipment with which to carry on its program.

International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

In order to protect the interests of its airlines in both their domestic and international operations, the Mexican Government has pursued a very restrictive air traffic policy. In negotiations with the US for a bilateral air agreement, Mexico has insisted upon monopoly rights over certain routes and upon a regulated division of traffic between US and Mexican airlines over certain other routes. The Mexican position reflects not only fear of the technical and financial superiority of foreign airlines (especially US airlines), against which Mexican carriers believe they cannot economically compete, but also the extreme sensitivity of the Mexican Government to criticism by nationalist groups. Since the Mexican demands are inconsistent with the basic principles of US aviation policy, the US has refused to abandon the Bermuda pattern and has consistently rejected any arrangement providing for a regulated division of traffic.

Negotiations initiated by the UK and the Netherlands have also been unsuccessful because of similar Mexican insistence upon split traffic arrangements. As a result, the only Mexican bilateral air agreements now in effect are a restrictive agreement concluded with Portugal on 22 October 1948, and an agreement signed with Cuba in June 1949.

b. International Organizations.

Mexico became a member of the International Civil Aviation Organization (ICAO) upon its ratification of the Chicago Convention on 25 June 1946 and has taken an active part-in most ICAO deliberations. The Mexican role was decisive in the failure of the special November 1947 Geneva meeting of an ICAO commission convened to draw up a multilateral agreement on commercial rights in international air transport. Apparently acting as the spokesman of the weaker civil air nations at that meeting, Mexico presented a resolution which brought out two conflicting views: (1) the US, the UK, and other major air nations sought a multilateral exchange of Fifth Freedom privileges in one international agreement; and (2) Mexico, the other Latin American nations present, and certain other weak air nations supported the Mexican resolution reserving to each country the right to withhold Fifth Freedom privileges in the negotiation of bilateral route agreements supplementing the multilateral agreement. (It had been decided that international air routes should be subject to bilateral negotiations.) The Mexican resolution was accepted by a vote of 13-9, with five abstentions. Because of the sharp difference of opinion, however, no compromise was possible and there has been no subsequent attempt to negotiate a multilateral agreement. Various explanations have been advanced for the Mexican delegation's action at the Geneva conference. In any event, it appears that the position taken by the delegation was not approved in advance by the Mexican Government. On the other hand, the Mexican proposal at Geneva was clearly consistent with the generally restrictive policy on air traffic rights pursued by Mexico. Aerovias Guest is a member of the International Air Transport Association.

c. US Technical Assistance.

From 1943 to 1947, a US Civil Aeronautics Technical Mission composed of flight training and aircraft maintenance specialists was assigned to Mexico to work with government officials in establishing the pilot training school "Cinco de Mayo" at Puebla. This mission participated in training more than 300 Mexican flight personnel, 60 percent of whom are currently engaged in civil aviation activities.

Airlines.

a. Mexican Scheduled Airlines.

There are thirteen Mexican airlines operating scheduled services within the country and to points abroad. In addition, about fifteen non-scheduled operators offer a variety of charter services. Of the three leading Mexican airlines, CMA, LAMSA, and Aeronaves, CMA continues to hold its dominant position. CMA's total weekly scheduled mileage makes up half of the Mexican total, is more than four times that scheduled by any other carrier, and twice the combined mileage of its three nearest competitors.

Aerovias Guest and the two PAA affiliates, CMA and Aeronaves, are reportedly the only Mexican airlines to be operating at a profit. Each of these, however, subsists principally on its income from a single lucrative route: Aerovias Guest, Mexico City-Madrid; CMA, Mexico City-Los Angeles; and Aeronaves, Mexico City-Acapulco (the popular Pacific beach resort). All Mexican airlines have been seriously affected by the general business slump and the devaluation of the Mexican peso. While passenger traffic has fallen off 15 percent since devaluation, operating costs (equipment, fuel, and repairs, most of which have to be paid for in dollars) have increased 20 percent. Freight traffic has increased about 50 to 75 percent, but not sufficiently to offset other losses. In the face of these conditions, which mean the inevitable bankruptcy of marginal operators, negotiations have been proceeding to merge about eight of the smaller airlines into a single organization, but no definite action has yet been taken.*

^{*} In the consolidation of the smaller Mexican airlines which took place during the early part of 1950, ATSA took over the operations of ALASA and Jalisio. ATSA, which may change its name to Air Mexico, will serve 27 cities and towns and consequently will become one of the largest domestic carriers. It is reported also that GPA and Panini have been merged with Reforma.

AIRLINES OF MEXICO

(October, 1949)

		(October, 1948)		
Airline	Unduplicated Route Miles*	Scheduled Miles per Week	Number of Aircraft (Various Types)	Ownership
Aeronaves	1,876	34,250	8	60% Private 40% U.S.
ATŞA	1,383	8,298	9	62% Private 38% U.S.
Contreras	1,550	6,200	6	100% Private
Aerovias Guest	5,756	23,024	5	63% Private 37% U.S.
ALASA	959	6,702	1	100% U.S.
Reforma	3,120	32,086	5	100% Přivate
CMA	5,015	147,502	23	59% Private 41% U.S.
GPA	675	4,524	3	100% Private
LAMSA	1,573	29,948	6	100% U.S.
Panini	1,616	11,016	6	100% Private
Jalisco	203	1,624	8	100% Private
TAT	372	5,874	6	100% Private
TAMSA	1,317	7,706	7	100% Private
TOTAL	25,415	318,754	93	

* The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

ORE Tr-1450

(1) Aeronaves (Aeronaves de Mexico, S.A.). Routes: The operations of Aeronaves are confined entirely to the western part of Mexico, except for one international stop at Nogales, Arizona. Its services are divided into two main types: (1) seasonal, high density tourist traffic between Mexico City and the Pacific resort, Acapulco; and (2) the relatively unfluctuating traffic carried over routes such as Mexico City-Nogales, and Mexico City-Mazatlan-La Paz.

Equipment:

4 DC-3

3 DC-21/2

1 Avro Anson

Aeronaves also owns a number of other aircraft, mostly single engine types, which are obsolete and not believed to be employed in regular operations.

Ownership:

60 percent private Mexican

40 percent US (Pan American World Airways)

Aeronaves was established in 1934 as a wholly Mexican-owned organization. Pan American acquired its 40 percent holding in 1940 and, as a result of certain contractual relationships, elects two of the five members of the Aeronaves Board of Directors who can block any action of the Directors. Moreover, purchase of equipment and certain other transactions cannot be undertaken without the consent of PAA, which therefore exer-

cises a considerable degree of effective control.

(2) ATSA (Aero-Transportes, S.A.).

Routes: ATSA operates only within Mexico. except for a stop at Brownsville, Texas, which is being served temporarily because of inadequate airfield facilities across the border at Matamoros. The ATSA route network includes most of the important Mexican cities between the US border and Mexico City. These points are served on one north-south and two east-west routes, interconnecting at two junction points, Monterrey and San Luis Potosi.

Equipment:

3 DC-3

3 Boeing 247-D

2 Stinson

1 Vuitee Special V-1

Ownership:

62 percent private Mexican (9 individuals)

38 percent private US (2 individuals)

ATSA was organized early in 1943 and started operating early the following year. Service has twice been interrupted for several months by lack of flying equipment and financial difficulties.*

(3) Contreras (Aerovias Contreras).

Routes: Contreras operates three routes from Tijuana, on the US border. Two of these serve Lower California: one extends the full length of the peninsula to La Paz; the other serves the Pacific resort of Ensenada. The third route extends to Mexicali and San Felipe, on the Mexican mainland.

Equipment:

3 DC-3

3 Avro Anson

Ownership: 100 percent private Mexican. Contreras was founded in 1947 by Mr. Manuel Contreras, who is believed still to be the sole owner of the airline.

(4) Aerovias Guest, S.A.

Routes: Aerovias Guest operates twice weekly service over just one route, Mexico City to Madrid, with traffic stops at the Azores and Lisbon and non-traffic stops at Miami and Bermuda. The company has applied to the US

Civil Aeronautics Board, however, for authori-

5 DC-4

(According to recent reports, two of these aircraft are operated on Guest's scheduled service, two are held in reserve or for charter service, and the fifth is temporarily leased to a US non-scheduled carrier.)

Ownership:

63 percent private Mexican

37 percent private US

Aerovias Guest began operations to Spain in January 1948 under a thirty-year license from the Mexican Government. Aerovias Guest is a member of the International Air Transport Association (IATA).

(5) ALASA (Aerovias Latino-Americanas, S.A.).

Routes: ALASA operates local routes throughout southeastern Mexico radiating from Villahermoso, which is also connected with Mexico City by a trunk route.

Equipment: 1 DC-3

ALASA also owns about 25 other aircraft of at least 10 different types, all small and obso-

Ownership: Believed to be controlled by US citizens; there is no Mexican Government par-Under several other names, ticipation. ALASA dates back to 1932.*

(6) Reforma (Aerovias Reforma, S.A.).

Routes: The only route now being operated by Reforma connects Mexico City with the west coast of Mexico and lower California (Mexico City-Guadalajara-Culiacan-Guaymos-Ensenada-Tijuana). Reforma also holds government concessions, however, for the operation of two other routes: Mexico City-Puebla and Acapulco-Puebla-Tampico.

Equipment:

3 DC-3

2 C-47 (cargo only)

Ownership: 100 percent private Mexican. The founder (1945) and sole stockholder is Mr. Alberto Rico Pani.*

zation to operate a non-stop Mexico City-New York service. Equipment:

^{*} See note page 79.

^{*} See note page 79.

 CMA (Compania Mexicana de Aviacion, S.A.).

Routes: CMA serves most of the important cities of Mexico, except Acapulco on the Pacific coast and those in the interior north of Mexico City. The CMA domestic route network consists of: (1) trunk routes radiating from Mexico City; and (2) feeder routes extending from Monterrey and Mexico City to cities on the Gulf coast, as far as Merida in the Yucatan. CMA also operates two international routes: Mexico City-Los Angeles and Mexico City-Habana. CMA is the only airline of any nationality serving these two routes directly. Connections with the affiliated PAA system are made on these routes at both Mexico City and Merida for points in Central and South America and points in the US. CMA has also applied to the US Civil Aeronautics Board for authorization to operate passenger and cargo services to New Orleans and several Texas ports of entry.

Equipment:

5 DC-4

15 DC-3

1 DC-21/2

1 C-54 (cargo only)

1 C-47 (cargo only)

Ownership:

59 percent private Mexican

41 percent US (Pan American World Airways)

CMA was founded in 1924 by two US nationals to transport payrolls to the Tampico oil fields. In 1929, Pan American purchased the entire capital stock of the company, for the purpose of gaining operating rights in Mexico. PAA's stock interest in CMA has been progressively reduced in recent years to 55.6 percent in 1944, to 45 percent in 1946 (thus relinquishing control), and to its present holding later that year.

(8) GPA (Golfo y Pacifico Aerotransportes, S.A.).

Routes: GPA connects cities along the Gulf of Mexico (from Gutierrez Zamora to Coatzacoalcos) with Mexico City. It also connects Coatzacoalcos with Salina Cruz on the Pacific coast. Equipment:

1 Cessna C-78 2 Avro Anson

Ownership: 100 percent private Mexican. GPA was founded and started operating in 1945.*

(9) LAMSA (Lineas Aereas Mexicanas, S.A.).

Routes: LAMSA operates north of Mexico City in western Mexico, including a route extending from Mexico City to Ciudad Juarez with a branch from Torreon to Mazatlan on the Pacific coast, as well as a group of routes in northwestern Mexico. LAMSA operates on a temporary basis to Nogales, Arizona, because of inadequate facilities on the Mexican side of the border. No direct connections are made, however, with LAMSA's US parent company, United Air Lines. LAMSA has also applied for US authorization to provide service to Los Angeles and several points in Texas.

Equipment: 6 DC-3

Ownership: LAMSA is the Mexican subsidiary of the US scheduled airline, United Air Lines, which holds 100 percent of LAMSA's preferred stock and 83.2 percent of its common stock. The remaining 16.8 percent of common stock is held by other US interests.

(10) Panini (Servicio Aereo Panini, S.A.).

Routes: Panini serves the central and southern parts of western Mexico, with Mexico City as its eastern terminus. Although several of Mexico's large cities are included in the network, the majority of points served are relatively small towns with inadequate surface transport facilities.

Equipment:

2 DC-3

2 Boeing 247-D

1 Avro Anson

 Travelair (not used in scheduled service)

Ownership: 100 percent private Mexican. Panini was founded in 1934 by Carlos Panini, who is believed still to hold a controlling interest.*

(11) Jalisco (Transportes Aereos de Jalisco).

^{*} See note page 79.

Routes: Jalisco serves a small section of west central Mexico, from Guadalajara on the east to Puerto Vallarta on the Pacific, thence south to Tomatlan. There is no appreciable surface transport in this region.

Equipment:

- 3 DC-3
- 2 Ford Trimotor
- 2 Cessna C-78
- 1 Vuitee

Ownership: 100 percent private Mexican. Jalisco was founded in 1936.*

(12) TAT (Transportes Aereos de Tampico).

Routes: TAT provides local service between Tampico and Mexico City and also connects Tampico, the chief oil center of Mexico, with the oil fields along the Gulf Coast. TAT is also active as a charter operator along its routes.

Equipment:

1 DC-3

5 Avro Anson

TAT also owns 5 other aircraft of 5 different types, all small and obsolete.

Ownership: 100 percent private Mexican. TAT was founded in 1940.

(13) TAMSA (Transportes Aereos Mexicanos, S.A.).

Routes: TAMSA connects Mexico City with the Gulf Coast, as far as Merida on the Yucatan Peninsula, and also serves the more important towns on the Peninsula. In addition, TAMSA operates a very short international route, originating in Merida, from Chetumal to Belize, British Honduras, where connections are made with the TACA System to Central America and with British West Indian Airways for Caribbean points.

Equipment:

2 C-47 (cargo only)

5 Avro Anson

TAMSA also owns at least a dozen other aircraft of various small and obsolete types.

Ownership: 100 percent private Mexican. TAMSA was organized in 1943 succeeding a carrier which had operated under various other names since 1933.

Foreign Scheduled Airlines.

Mexico is presently served by four foreign scheduled airlines, of which three are USowned or controlled. American Airlines operates through-flights to Monterrey and Mexico City via points in Texas, from the US west and east coasts, and from Chicago. Pan American World Airways (PAA) has a group of routes which serve Tampico and Mexico City from Texas gateways, continuing on (via Tapachula, on some flights) to Guatemala and other points in Central and South America. PAA also operates Miami-Habana-Merida and New Orleans-Merida-Guatemala services. TACA El Salvador, a US-controlled carrier, provides service from Mexico City to Guatemala and beyond, connecting with other TACA Airways System services. The Cuban airline, Aerovias "Q," has recently begun operations over a route from Habana to Merida and Vera Cruz.

[°] See note page 79.

APPENDIX O

NICARAGUA

Government Organization for Civil Administration.

Civil and military aviation in Nicaragua are both controlled directly by General Somoza, Minister of War, Navy, and Aviation. There appears to be no significant aviation organization in the government other than an assistant to Somoza who concerns himself with aviation matters.

- 2. Domestic Civil Aviation Policy.
 - a. Civil Aviation Legislation.

A Law of Civil Aviation, passed in 1944, is presumably still the controlling basic legislation for civil aviation, although it has been supplemented by various presidential decrees.

b. Regulation of Nicaraguan Airlines.

The economy of Nicaragua is largely dependent upon air transportation. Gold is one of the country's principal exports and air transportation is almost the only link between the isolated mining areas and the rest of the country. Supplies, mining equipment, and personnel are flown in to the mines, while gold and personnel are transported on the return trip.

In order to secure further control over civil aviation, Somoza encouraged the formation in 1948 of a new Nicaraguan airline, FANSA. This action was taken in the hope that the airline would not only provide a source of considerable income, but would also train pilots of the Nicaraguan Air Force (FAN) and ensure the availability of an air transport service on which Somoza could depend in an emergency, such as revolution or outside attack. As a means of promoting FANSA, Somoza suspended the operating permit of TACA de Nicaragua and forced the liquidation of its assets by suddenly invoking a previously waived Nicaraguan law requiring 55 percent of the stock of domestic airlines to be held by Nicaraguan nationals. TACA de Nicaragua was vulnerable under this law, since it had at one time been a wholly foreign-owned subsidiary of the TACA System, and had more recently been sold to private US and Honduran citizens. This action by the Nicaraguan Government was in effect an outright expropriation, because FANSA immediately took over TACA de Nicaragua's ground equipment and attempted to operate its freight business. TACA's three DC-3 aircraft, however, escaped to Honduras.

The principal beneficiary of these developments has actually been Lineas Aereas de Nicaragua, S.A. (LA NICA), a Pan American World Airways (PAA) affiliate in which PAA owns a 40 percent interest. The mine owners proved disinclined to do business with the obviously government-oriented FANSA, and LA NICA has gradually secured most of the charter freight traffic to the mines. Moreover, it soon received TACA de Nicaragua's mail contract and took over all of the domestic scheduled traffic. Loss of two aircraft in crashes early in 1949 has apparently brought FANSA operations almost to a standstill and has forced it to negotiate the sale to LA NICA of its remaining two aircraft. LA NICA, therefore, is now the only scheduled airline in Nicaragua.

The preferential treatment accorded to LA NICA at the same time FANSA was being unsuccessfully promoted is attributable to the 20 percent share of its capital stock held by the government. Somoza himself, moreover, is reported to hold directly a substantial portion of LA NICA's privately owned shares. Even as the principal air transport service now available to Somoza, however, LA NICA receives no subsidy except that provided by its mail contract with the government.

c. Regulation of Foreign Airlines.

The action taken by the government against TACA de Nicaragua did not affect the operations of TACA, S.A. (TACA El Salvador) or PAA, both of which operate international services through Nicaragua.

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d. Promotion of Other Aviation Activity.

The Nicaraguan Government is financially reluctant and technically unable to maintain meteorological and navigational aids. PAA operates Managua airport at its own expense and the US Air Force maintains weather and communications facilities there.

A now practically inactive Aero Club, organized in 1946, is also controlled by General Somoza, but has received no government assistance. There is therefore little or no market in Nicaragua for civil aircraft.

3. International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

Since no Nicaraguan-flag carrier operates scheduled services outside the country, Nicaragua has had little occasion to develop an international air traffic policy. It has not raised any obstacles to the operation of foreign airlines into Nicaragua. The Nicaraguan Government has negotiated no bilateral air transport agreements.

International Organizations.

Nicaragua was represented at the 1944 Chicago Conference and became the first Latin American member of the International Civil Aviation Organization (ICAO) by adhering to the Chicago Convention on 28 December 1945. Although Nicaraguan representatives have attended ICAO meetings, they have not taken an active part in the proceedings.

c. US Technical Assistance.

The airport at Managua was built and equipped by the US under the wartime Airport Development Program.

4. Airlines.

a. Nicaraguan Scheduled Airlines.

LA NICA, the only scheduled airline in Nicaragua, was organized by PAA in 1945 to compete with the TACA System's subsidiary in that country, TACA de Nicaragua. LA NICA gradually expanded its services until, by 1947, it operated 90 percent of the scheduled service in the country. When TACA de Nicaragua was expropriated in 1948, LA NICA became the only scheduled Nicaraguan airline. It has experienced only negligible competition from the charter operations of FANSA and a recently established non-scheduled carrier, INCA.

INCA Airlines Express Agency was organized in Miami late in 1948 and was unexpectedly designated by Nicaragua shortly thereafter as its chosen instrument for Miami-Managua air transport. Under the direction of an ex-PAA pilot, W. E. Quick, who is President, majority stockholder and Chief of Operations, INCA has maintained twice weekly non-scheduled service between Miami and Managua via Puerto Cabezas. It also stops every other week on its northbound trip at the Bonanza and Siuna mining areas in the interior of Nicaragua. Somoza appears to be promoting Quick in this enterprise, which accounts for the political favor enjoyed by the company at present. INCA owns one DC-3, and leases another and a C-46 when needed.

Lineas Acreas de Nicaragua, S.A. (LA NICA).

Unduplicated Route Miles 849 Miles Scheduled Per Week 6,738

Routes: LA NICA connects Managua with towns along the eastern coast and with two mining communities in the interior, Siuna and Bonanza. One route extends east from Managua to Bluefields and then north up the eastern coast; the other extends from Managua northeast through the interior to the Caribbean coast at the northern extremity of the country.

Equipment:

4 DC-3

1 Boeing 247-D

Ownership:

40 percent US (PAA)

20 percent Government of Nicaragua

40 percent private Nicaraguan

b. Foreign Airlines.

Managua, the capital of Nicaragua, is served on the Central American routes of both TACA, S.A. (TACA El Salvador) and Pan American World Airways (PAA). TACA provides service to New Orleans and Mexico City, while PAA also provides direct service to the US and connecting service throughout Latin America.

APPENDIX P

PANAMA

Government Organization for Civil Aviation.

Civil aviation in Panama is under the jurisdiction of the Ministry of Government and Justice, acting through a Department of Civil Aeronautics. An earlier Department of Civil Aeronautics functioned during 1948 under the Ministry of Finance and Treasury, but was eliminated for economy reasons and its responsibilities were transferred to an Inspector General of Aviation under the Ministry of Government and Justice. This arrangement. which required a Ministry to handle the civil aviation function directly, apparently did not work well, with the result that the Department of Civil Aeronautics was re-established within the Ministry of Government and Justice by Decree-Law 5 of 18 August 1949. A National Civil Aeronautics Board was created by this same decree to "study and resolve civil and commercial aviation problems subject to approval by the Executive Organ."

Civil Aviation Legislation.

It is believed that civil aviation in Panama is regulated in part by a decree of 1932, modified in 1947. Among other matters, this legislation permits and regulates the registration of foreign air carriers under the flag of Panama. When a particular case is not covered by Panamanian civil aviation legislation, it is the practice of the Panamanian Government to apply a literal translation of US civil air regulations. The National Civil Aeronautics Board and the Department of Civil Aeronautics are preparing a basic civil aviation law designed to fit the special aviation situation in Panama and to fall within the framework of recommendations by the International Civil Aviation Organization (ICAO).

Civil Aviation Policy.

Because of Panama's limited financial resources and the general lack of aeronautical knowledge on the part of most of its government officials, civil aviation has not been strongly supported or closely regulated by the Government of Panama. For the most part, civil aviation has been exploited for political purposes by intensely nationalistic elements in Panama. More recently, however, official attention has been focused on the necessity of formulating a general policy which will support all legislative and administrative action that is needed to encourage the maximum use of Panama's new Tocumen National Airport.

The government does not grant any direct subsidy to its only scheduled domestic airline, Compania Panamena de Aviacion, S.A. (COPA), which is a Pan American World Airways affiliate. It has concluded a contract with COPA, however, granting the latter an exclusive franchise (for scheduled air services in Panama and an indirect subsidy in the form of certain tax exemptions, in return for free transportation of Panamanian Government officials. This contract also stipulates that 60 percent of the airline's stock shall be controlled by Panamanian nationals and that foreign employees will not be hired unless qualified Panamanians are not available.

Although Panama does not pursue a restrictive policy toward foreign airlines, there are extreme nationalistic elements within the government and the country who have periodically submitted legislation designed to give Panama rather strict control over the operations of foreign airlines. The government is anxious, however, to induce the airlines of as many countries as possible to use Panama's new Tocumen National Airport in order to derive sufficient revenue to cover the cost of its maintenance and operation. As a result of the US-Panama bilateral air agreement signed 31 March 1949, the operations of US carriers were transferred from the US Air Force Base, Albrook Field (which is in the

Canal Zone about one mile from Panama City), to Tocumen Airport (which is in the Republic, but more distant from the city). All commercial airlines serving Panama now operate into Tocumen.

Panama has few trained radio and meteorological technicians and few qualified pilots for commercial-type aircraft. Other than at Tocumen Airport, ground facilities and radio navigation aids are lacking or very inadequate. Tocumen and the airports at David and Bocas del Toro are currently being improved. Three flight schools and four flying clubs continue to offer a limited amount of private flying and flight instruction.

Panama has Bermuda-type air agreements with Peru (1947) and the US (1949). Ratification of the US bilateral by the National Assembly constituted an important victory for the liberal forces within Panama and for improved US-Panamanian relations, since the agreement had been bitterly opposed by anti-US nationalistic forces in Panama. Prolonged negotiations with the UK are expected to terminate soon in signature of a bilateral air agreement.

Panama has not joined the International Civil Aviation Organization.

The US has built a number of military air bases both in the Canal Zone and in the Republic of Panama for the protection of the Panama Canal. In compliance with Panama's request (in a note accessory to the US-Panama bilateral air agreement), a US Technical Civil Aviation Mission has been assigned to Panama, and several specialists are assisting and training Panamanian personnel in the operation of Tocumen Airport as an international air center.

Airlines.

a. Panamanian Scheduled Airlines.

Compania Panamena de Aviacion, S.A. (COPA), the only airline presently operating scheduled service within the Republic of Panama, was organized in 1944 by Pan American World Airways (PAA), which retained 40 percent of the stock. COPA commenced operations in 1947 over those interior routes which had been served until then by PAA under its Panamanian cabotage privileges.

Another important element in Panama's civil aviation is Adams Enterprises in Spanish America, S.A. (AESA), owned by John C. L. Adams, a retired US Army Colonel. AESA acts as a Central American representative for various US manufacturers of aviation products and arms. It has also contracted with the Panamanian Government to operate both a non-scheduled airline, Aviacion General, S.A. (AGSA), and an aviation school for the training of Panama pilots and mechanics. AESA has acquired all the properties of an amphibian base and aviation school at Puerto Pilon. It is building up these facilities, especially a seaplane ramp, as well as operating the school, and conducting thrice-weekly passenger and cargo service to several points on the Atlantic side of the Isthmus, using Noordyn Norseman seaplanes and Grumman Goose amphibians. (A special summary of the TACA system is included as Section 5.)

In October 1949, COPA was operating the following route miles and miles scheduled per week:

Unduplicated Miles Scheduled Route Miles Per Week 522 4.108

COPA (Compania Panamena de Aviacion, S.A.).

Routes: COPA serves the western half of Panama with a triangular route extending from Panama City, the capital, southwest to David and Puerto Armuelles, on the Pacific coast, then north across Panama to Changuinola on the Atlantic side. The route then extends east through Bocas del Toro back to Panama City.

Equipment: 2 DC-3

Ownership:

67 percent private Panamanian 33 percent US (PAA)

b. Foreign Scheduled Airlines.

Panama is the hub of an extensive network of international scheduled airline services extending throughout Central and South America, as well as to the US and to Europe. Aircraft of seven foreign airlines, representing four nationalities, regularly serve Panama City. Four of these are US-flag carriers: Pan American World Airways (PAA), PANAGRA, Braniff International Airways, and Uraba, Medellin and Central (UMCA). Two others, British Overseas Airways Corporation (BOAC), and Royal Dutch Airlines (KLM), are European and the seventh is the Colombian-flag affiliate of the PAA System, AVIANCA. The routes operated by these carriers which serve Panama City are indicated below:

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Routes from:

PAA -

US via Central America to Panama; US via Jamaica to Panama; US to Panama (non-stop); and Trinidad via north coast of South America to Panama.

PANAGRA

Panama via west coast of South America to Chile and Argentina.

Braniff

US via Cuba to Panama and west coast of South America.

UMCA

Panama to Colombia.

BOAC

Europe and US via Bermuda and Jamaica to Panama and west coast of South America.

KLM

Europe and Caribbean area to Panama and Costa Rica.

AVIANCA Cold

Colombia to Panama.

In addition to the foregoing operations through Panama City, service to David, Panama is maintained by PAA en route from San Jose to Panama City. Moreover, two other foreign airlines, both Costa Rican, provide service to points in Panama. The operations of TACA de Costa Rica include Panama's northeastern border town of Bocas del Toro; LACSA's only international service crosses Panama's northern border to the Pacific town of Puerto Armuelles.

c. Foreign Non-Scheduled Operations.

Transocean Air Lines, a US irregular air carrier, has operated frequent flights to Tocumen Airport and is negotiating a contract with the Panamanian Government permitting unlimited operations on a charter basis.

The TACA System.

A study of the TACA System is inserted at this point because TACA Airways, S.A., the non-operating US-controlled holding company for this group of airlines, is incorporated in Panama.

The TACA System grew out of charter operations started in 1931 in Honduras by Mr. Lowell Yerex, a New Zealander, under the company name Transportes Aereos Centroamericanos, S.A. (TACA de Honduras). Operations were confined to that country until 1934, when the company began its expansion throughout Central and South America chiefly by means of the purchase or organization of other local lines. TACA de Honduras remained the principal company of the system until 1939, when TACA Airways, S.A. was founded as the non-operating holding company for the operating subsidiaries.

The TACA System reached its maximum size about 1947. Since that time, however, it has been contracted considerably, mostly by the sale of component companies.

The following companies make up the present system:

(1) TACA Airways, S.A.

This company is the non-operating holding company of this group of airlines. It was established in Panama in 1939 as TACA, S.A., changed its name in 1943 to Inter-American Airways, S.A., and later in that year adopted the present name.

(2) TACA, S.A. (TACA El Salvador).

This company was established in 1939 in El Salvador to operate the international routes of the TACA System in Central America, which had previously been operated by TACA de Honduras. TACA El Salvador has continued in this role and has expanded its operations to the US and Mexico. In May 1948, TACA El Salvador signed an agreement with TACA de Honduras to have the latter operate the Central American international routes. These operations are still conducted, however, under the name of TACA El Salvador.

(3) Linea Aerea TACA de Venezuela, C.A. (TACA de Venezuela).

This company was established as an affiliate of TACA Airways in August 1944. At present, it is the only TACA-affiliated airline operating in South America.

(4) TACA de Mexico, S.A. (TACA de Mexico).

This company was established in Mexico in 1944 as a non-operating subsidiary of TACA Airways to comply with the terms of the permit issued by the Mexican Government to TACA El Salvador to operate into Mexico. (The permit required the establishment of a Mexican company to own the TACA System's ground facilities and real estate in Mexico.)

(5) TACA Airways Agency, Inc.

This company was established in the US in 1943 for the purpose of handling business in the US for the TACA System.

(6) TACA Airlines Investing Corporation.

This company was incorporated in the US in 1946 as an inactive subsidiary of the System. It owns one-half of the TACA System interest in TACA de Colombia.

The chart below indicates the relationship between the present components of the TACA System and the percentage of the stock of each component which is held by the Panama holding company, TACA Airways, SA.

The following companies were at various times affiliated with the TACA System, but have since been sold to other interests or have discontinued operations:

British West Indian Airways (BWIA), which Mr. Yerex had organized outside the TACA System in 1940, became a part of the System in 1943, when Yerex turned over his 40 percent stock interest in BWIA to TACA Airways. By 1947, TACA Airways had sold all of this stock to British interests.

Aerovias Brasil, which Yerex had founded in 1942, was sold to Brazilians in 1947.

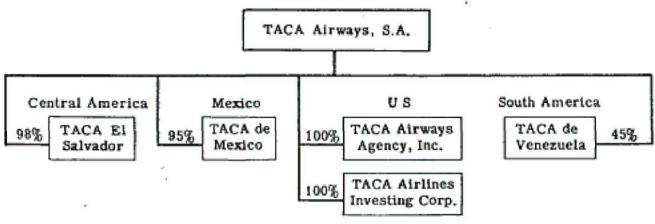
TACA de Colombia was established as a TACA Airways affiliate in 1944 but discontinued operations in July 1947 because of financial difficulties.

The original company, TACA de Honduras, along with TACA de Nicaragua, was sold to Central American interests in February 1948. TACA de Nicaragua is no longer in operation.

TACA de Costa Rica was sold to Central American interests in May 1948.

The founder of the TACA System, Lowell Yerex, was originally its principal owner. However, in 1943, US investors acquired a 46.2 interest in TACA Airways, S.A., and subsequent capital increases in 1946 raised this percentage to 62.4 percent. A voting trust agreement was signed in 1947 by the following TACA stockholders: Mr. Yerex, The Pennroad Corporation, Transcontinental and Western Air, Inc. (TWA), and the Waterman Steamship Corporation. Under this agreement, which provided that Waterman was to exercise the voting privileges of the other parties until 15 July 1949, Waterman apparently acquired effective control of the TACA System. It is not known, however, whether the voting trust agreement has been renewed.

Although the exact percentage of total outstanding stock which US interests presently own is not known, it is believed to be about 75 percent.



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APPENDIX Q

PARAGUAY

Government Organization for Civil Aviation.

Paraguay's limited civil aviation activity is administered by the Ministry of National Defense, acting through a Directory of Aerial Traffic (Direction de Trafico Aero). The latter agency was recently removed from the jurisdiction of the Commander of the Air Force, with the result that civilian control over commercial aviation has been increased. Military and civil aviation functions are now theoretically separated, although there is still considerable overlapping. The effectiveness of the "Direccion" in developing civil aviation in Paraguay is still seriously restricted by its lack of greater autonomy and sufficient resources.

2. Domestic Civil Aviation Policy.

a. Civil Aviation Legislation.

There is very little legislation in Paraguay affecting civil aviation. No information is available on civil air regulations currently in effect. Linea Aerea de Transporte Nacional (LATN), the national airline, was established by Decree No. 4464 of 12 July 1944. A second Decree, No. 7151, adopted 6 February 1945, established operating regulations for LATN and also granted the airline a monopoly on domestic air transportation.

b. Regulation of Paraguayan Airlines.

Progress in civil aviation, which is at a very primitive level in Paraguay, has been retarded by political instability, lack of interest, and insufficient funds. Implementation and enforcement of civil air regulations have been lax, and frequent changes of administration have interrupted the establishment of a consistent aviation policy.

Paraguay is a fertile field for the development of air transport, since it has a limited highway system, and rail service is maintained only in the southern part of the country (one rail line from Asuncion southeast to the Argentine border). River transportation and fair-weather roads must be depended on for most transport requirements. Although Paraguayan legislation grants LATN a monopoly of domestic commercial air service, the government also gave tacit approval to the establishment of a limited charter service by US interests during 1948. LATN has protested this service, but the government now seems determined to encourage any form of aviation activity.

c. Regulation of Foreign Airlines.

It is Paraguayan policy to encourage international carriers to serve the country, but the traffic potential is too low to attract many foreign operators. No US carrier serves Asuncion, the capital, at the present time. Although an application by Braniff International Airways to serve Asuncion en route to Buenos Aires is being given priority attention by the "Direccion," it is unlikely that Braniff will inaugurate service to Paraguay until Argentina authorizes extension of the route to Buenos Aires.* Commercial airline travel to Asuncion is now possible only via Argentine or Brazilian airlines.

Cabotage traffic is reserved to Paraguayan enterprises.

Promotion of Other Aviation Activity.

The excellent runway at the Asuncion airport was built by the US under the wartime Airport Development Program. Development and improvement of other fields (none of which is surfaced) has increased the number of points served by the national air service.

Recent aviation policy has encouraged private flying and the reorganization of the Aero Club del Paraguay (ACP). Reactivation of this club, equipped with its own aircraft, and

Braniff inaugurated Lima-La Paz-Asuncion-Buenos Aires service during June 1950.



the development of a small grass field near the capital for the use of private aircraft have tended to reduce civilian dependence on the air force for the latter's aircraft, personnel, and flying facilities.

There is no airframe or aircraft engine industry in Paraguay.

3. International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

Paraguay encourages foreign airlines to serve the country. Since its carrier does not operate outside the country, Paraguay has no competitive reason for desiring to restrict the operations of foreign carriers.

Paraguay concluded a Bermuda-type bilateral air transport agreement with the US in February 1947.

b. International Organizations.

Paraguay is a member of the International Civil Aviation Organization (ICAO). Its ability to participate actively in ICAO activities, however, is very limited, and failure to meet its financial obligations to the organization has resulted in suspension of its voting rights. Paraguay has not been represented at all ICAO functions.

c. US Technical Assistance.

No CAA Mission has been assigned to Paraguay. As indicated in Section 2, however, the Asuncion airport was developed with US assistance.

4. Airlines.

a. Paraguayan Airlines.

LATN, the national airline, is operated by the air force and handles most of the commercial air service within Paraguay. Both military and non-military transports, and even training planes on occasion, are used in commercial services. LATN was organized primarily to provide fast transportation to outlying Army posts. Since its schedules are kept at a minimum, LATN's commercial service is mainly on a charter basis.

Two US ex-servicemen have established a domestic air charter service in Paraguay, using two Cessna 170's. The government, under pressure from LATN, however, may force a suspension of this service.

Several approaches have been made to the Paraguayan Government by various foreign interests for authorization to establish an international air service based in Paraguay. Various grandiose proposals for operations to Europe and the US, involving both Argentine and US interests, have been advanced, but such operations are not likely to materialize for some time, if at all.

Data concerning LATN (Linea Aerea de Transporte Nacional) as of 10 October 1949 are summarized below:

> Unduplicated Miles Scheduled Route Miles Per Week 2.169 3.737

LATN

Routes: LATN connects Asuncion with outlying towns in Paraguay through four routes known as: (1) Northwestern; (2) Northeastern; (3) Eastern; and (4) Southeastern.

Equipment:

- 2 Stinson Voyager
- 4 Stinson Reliant
- 2 Republic Seabee

Ownership:

100 percent Government of Paraguay.

b. Foreign Airlines.

The capital of Paraguay, Asuncion, is served by two international carriers.* Panair do Brasil operates one, route west from Rio de Janeiro and Sao Paulo via Curitiba and Iguassu Falls to Asunción, and a second route south from Campo Grande to Asunción. ALFA, the Argentine carrier, provides service to the city on two routes from northern Argentina.

^{*} A third carrier, Braniff International Airways, now serves Asuncion (see note page 91).

APPENDIX R

PERU

1. Government Organization for Civil Avia-

Civil aviation in Peru is the responsibility of a Ministry of Aeronautics acting through a Directorate General of Civil Aviation (DGAC). The DGAC is charged with administration of civil aviation policy and regulation of civil aviation activity. The Corporacion Peruana de Aeropuertos y Aviacion Commercial (CORPAC), a government-controlled aviation corporation, is responsible for implementation and administration of DGAC regulations relating to the construction and operation of airports and air communications facilities. A General Directorate of Meteorology established in June 1949 replaced the National Meteorological Service as a direct dependency of the Ministry of Aeronautics. A Civil Aeronautics Advisory Committee was created in 1946 to study aviation policy and act as an advisory board to the Minister of Aeronautics. This committee is composed of the Legal Director in the Ministry of Foreign Affairs, the Chief of Staff of the Peruvian Air Force, the Minister of Aeronautics, the Director of Civil Aviation, the President of CORPAC, and the President of the Peruvian Tourist Board.

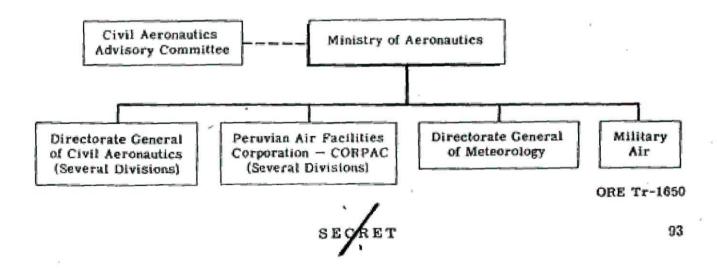
An almost complete lack of properly trained administrative, flight, and technical personnel in Peru, other than those employed by the civil airlines, has necessitated a dependence on military personnel for staffing all civil aviation regulatory bodies. With the coming into power of the Military Junta in late October 1948, moreover, all phases of civil aviation fell under stricter military control. This influence, however, has not been exerted to favor military aviation requirements over commercial ones.

Lines of responsibility for the foregoing functional groups have been established approximately as in the chart below.

- 2. Domestic Civil Aviation Policy.
 - a. Civil Aviation Legislation.

A few of the most important laws, decrees, or resolutions dealing with civil aviation are listed below.

- Decree No. 27 of 31 October 1945 charged the DGAC with responsibility for the inspection of all civil aeronautical equipment, including that of commercial aviation companies.
- (2) A decree of 15 May 1946 required all commercial air navigation companies to use multi-engine aircraft in the transport of passengers, freight and mail, except when inadequate ground facilities require the use of smaller aircraft.



- (3) Decree No. 29 of 30 June 1946 reorganized CORPAC, granting it additional authority and funds with which to carry out its functions.
- (4) Decree No. 31 of 30 June 1946 created the Civil Aeronautics Advisory Committee.
- (5) Decree No. 33 of 17 July 1946 directed that the legal obligation of companies operating air services to employ Peruvian nationals as 80 percent of their employees (Law 7505 of 8 April 1932) shall be carried out progressively until fulfilled or until all qualified Peruvian nationals are so employed.
- (6) Decree No. 27 of 12 July 1947 established the requirements for concession of operating permits to national and international airlines.
- (7) Resolution No. 704 of 23 November 1948 cancelled all cabotage rights in Peru of the US airline, PANAGRA, as of 1 January 1949.
- (8) Resolution No. 389 of 3 May 1949 approved the "Rules of the Air" drawn up in accordance with the standards recommended by the International Civil Aviation Organization (ICAO).

b. Regulation of Peruvian Airlines.

Peruvian policy favors majority control of Peruvian airlines by nationals of the country. The operating contract of the ill-fated Peruvian International Airways, for example, required majority control of that company by Peruvians within 10 years of its establishment. Moreover, it is required by law that 80 percent of the employees of each airline be Peruvian nationals.

Except for the services rendered by the Military Air Transport Service (TAM), the Peruvian Government has not participated in the operation of air services. Until recently, therefore, it appeared that Peruvian policy endorsed private initiative for the development of air services. The present military regime, however, is promoting TAM as a commercial airline in an apparent effort to compete directly with Peruvian civil airlines. Although the government ostensibly favors reasonable competition in the airline industry, it has followed certain discriminatory procedures in its efforts to draw additional traffic to TAM. Moreover, despite the serious setback of a recent accident, TAM still appears to retain ambitious plans for further expansion. The Peruvian Government's policy of favoring TAM, however, may adversely affect the development of the country's civil aviation, since it is probable that TAM does not have the necessary skill and experience for operating a dependable commercial airline.

The Peruvian Government has on occasion granted subsidies to civil airlines on a very limited scale. The Compania de Aviacion Faucett is reported to have received a small subsidy at one time, for example, but it now has only a contract for the carriage of mail. ANDES, formerly a scheduled domestic carrier, received a small allotment in September 1949 for the purpose of reorganizing on a sounder economic basis as a non-scheduled operator for domestic and international services.

In spite of Faucett's 20 years of service exclusively within the country, the present government does not consider this carrier a genuine Peruvian enterprise, principally because PANAGRA controls 25 percent of its stock. However, Faucett still retains influence with the government because its services, although admittedly inferior to the cabotage services formerly provided by PANAGRA, are of great value to the country and could not now be duplicated by any other Peruvian organization.

In order to promote existing airlines, especially TAM, the government discourages the establishment of additional scheduled or nonscheduled services within the country.

c. Regulation of Foreign Airlines.

Peru was the most recent Latin American country to withdraw cabotage privileges for foreign airlines. PANAGRA lost these privileges as of 1 January 1949.

Foreign airlines must secure permits for the operation of services to Peru from the DGAC. Such services are subject to the terms of bilateral air agreements negotiated between Peru and those countries whose airlines fly to Peru.

Foreign non-scheduled flights to Peru must receive prior authorization, requests for which must be made to the DGAC at least five days in advance of expected entry. Peru is not known to have put any obstacles in the way of such approval.

d. Promotion of Other Aviation Activity.

Peruvian policy with respect to the development, improvement, and operation of air facilities is executed by the Ministry of Aeronautics through the government airport corporation, CORPAC. To the limited extent permitted by the funds which have been made available to it, CORPAC has attempted to bring all construction, maintenance, and operation of airports, radio aids to navigation, and communications facilities under its control. For the most part, its funds have been spent on developing and operating the Limatambo Airport (large, modern airport and buildings outside Lima) and in purchasing communications and other facilities throughout the country from the commercial airlines, which originally installed and operated such facilities for their own purposes. CORPAC has been criticized, however, for failing to expend funds or effort to improve the communications, radio navigation aids and airports at the secondary air centers of the country. Although airline operators have found CORPAC services expensive and their charges sometimes discriminatory, it is generally agreed that this system is less costly than duplicate operations by individual carriers. Moreover, more efficient administration of CORPAC might lessen the charges and improve the services.

CORPAC's principal current difficulty has been the continued failure of the government to contribute sufficient funds for the corporation to perform adequately its duties. As a result, CORPAC's administration has recently become disorganized, its services have deteriorated, the President of the corporation has resigned, and plans have been advanced for a return of its facilities to private operations. In September 1949, however, funds finally appeared to be forthcoming to enable CORPAC to continue at a fair level of efficiency.

CORPAC plans eventually to convert the present aircraft communications network to radio-telephone. The new service would consist of two networks, one serving northern Peru and the other serving southern Peru.

Prior to the October 1948 coup, the government granted small subsidies to aero clubs and was about to inaugurate a broader program to encourage private flying. The present government, however, has not revived these plans. Strict controls on imports of aviation products, as a result of Peru's acute shortage of foreign exchange, make it unlikely that private flying will receive any substantial stimulus in the near future.

There is no airframe or aircraft manufacture in Peru at present. Until 1946, however, aircraft manufacturing was an important phase of the Faucett Aviation Company business. Faucett developed in 1934 a Stinson-Reliant type of single-engine plane particularly suitable for operation into the rough Peruvian airports and capable of climbing over the Andes. About thirty of these aircraft were completed by 1946. Production was discontinued at that time, partly because the planes were becoming obsolescent and also because of the government decree requiring commercial airline companies operating in Peru to use multi-engine aircraft on all routes except those with landing fields not suitable for such larger aircraft.

3. International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

With one major exception, basic Peruvian international aviation policies have closely paralleled those of the US, including strong support of Fifth Freedom rights, the early execution of a multilateral air transport agreement, and the standardization of regulations and practices through representation in and adherence to the International Civil Aviation Organization (ICAO). Since the Bermudatype bilateral air agreement was concluded with the US on 27 December 1946, Peru has negotiated agreements with Cuba, Panama, Chile, the UK, and the Netherlands.

The sole major instance of divergence of civil aviation policy between the US and Peru was primarily concerned with conflicting interpretation of the US-Peru bilateral agreement. During the summer and fall of 1948, lengthy consultation between officials of Peru and the US took place as a result of Peru's attempts to impose frequency limitations on US carriers flying through Peru on the west coast routes. These talks were held in an effort to reconcile divergent US and Peruvian views on the amount of service which should be allowed on those routes under the agreement.

Probably as a result of pressure exerted by the newly organized Peruvian International Airways (PIA), which was faced with the competition of two experienced and heavily backed US airlines, the Peruvian Government canceled the license authorizing Braniff Airways (a designated US carrier under the bilateral agreement) to operate into Peru, just as Braniff initiated service in June 1948.

However, intervention of the US Government resulted in the Peruvian Government's agreement to reinstate the Braniff permit. pending consultation as provided for in the bilateral agreement. The US took a serious view of the entire situation, inasmuch as any outcome unfavorable to the US interpretation of the bilateral agreement would have established a precedent jeopardizing the numerous similar agreements concluded by the US throughout the world. The revolution which unseated the Peruvian Government in October 1948, however, ended all discussions on the subject of the bilateral agreement. Since PIA terminated its operations in February 1949, the new Peruvian Government has not reopened the subject.

c. US Technical Assistance.

A US Civil Aeronautics Mission has been functioning in Peru since February 1946 on the basis of notes exchanged on 27 December 1946 between Peru and the US. Specialists in the fields of air traffic control, airport engineering, meteorology, communications, cartographic engineering, and air safety have been assigned to the mission at various times. The mission has: (1) aided in the compilation and issuance of modern air traffic rules; (2) surveyed and made recommendations on air traffic control, airports, and air navigation aids; and (3) studied and made recommendations for the reorganization of civil aviation in Peru. Since the Military Junta took over in October 1948, efforts of the mission to stimulate the reorganization and coordination of civil aviation activities and functions in Peru have been fruitless. Having abandoned its efforts in this direction, the mission has concentrated during 1949 on aiding CORPAC in the improvement of its services. A meteorological survey has also been conducted by a US technical specialist, and a study of air transport tariffs with

respect to rising costs of operation led to recommendation by the mission of a 25 percent increase in traffic rates. Moreover, a modern 6,000 ft. airstrip with radio and ground facilities, which was built by the US at Iquitos, Peru, during the war to expedite the movement of rubber from the upper Amazon, has now been turned over to the Peruvian Government.

4. Airlines.

a. Peruvian Scheduled Airlines.

At present, there are only two operators providing scheduled domestic airline service in Peru: Compania de Aviacion Faucett (Faucett) and Transportes Aereos Militares (TAM). Faucett is a privately owned enterprise, while TAM is operated by the Peruvian Air Force. A third carrier, Aerovias Nacionales del Sur (ANDES), formerly operated scheduled services within Peru. Because of financial difficulties, however, ANDES sought and obtained permission in August 1949 to operate domestic and international non-scheduled services for passengers and freight, using C-46 aircraft. The Lima-Caracas (Venezuela) route, inaugurated 1 September 1949 by ANDES on an irregular basis, offers a promising traffic potential, largely because of the direct connections from Caracas to points in the US and Europe.

Compania de Aviacion Faucett was established in 1928 by Elmer J. Faucett, an American who had been barnstorming for about five years up and down the northwestern coast of South America and across the Andes. Although the present regime in Peru is not as favorable to Faucett as previous governments have been, the company still enjoys considerable influence in Peruvian aviation circles. It has earned a profit regularly and has experienced little difficulty in generating additional traffic for its new, larger aircraft.

TAM was authorized to put its service on a scheduled basis in January 1949. The government's desire to extend TAM's service was probably largely responsible for cancellation of PANAGRA's cabotage privileges, also in January 1949. TAM and Faucett now share the former PANAGRA traffic. In order to cover the routes it attempts to serve, TAM has subjected its equipment to intensive utilization,

to the serious detriment of both the safety and efficiency of its operations. As its service expands under government sponsorship, TAM will probably encroach upon Faucett's traffic, in spite of the fact that TAM has been required to increase its commercial rates to a level only slightly below that of Faucett. Elimination of ANDES from the domestic scheduled service competition, moreover, improves the competitive prospects for both Faucett and TAM.

Peruvian International Airways (PIA), Peru's former chosen instrument for international air service, operated to the east coast of the US until early in 1949. This carrier opened service to Habana in May 1947 and, in accordance with the US-Peru bilateral agreement, extended its service in July 1947 to New York via Miami and Washington. Intense competition from two US carriers over routes partially paralleling those of PIA, in addition to insufficient capital support and unsound commercial airline practices, was responsible for the serious financial difficulties which forced PIA to discontinue services and declare bankruptcy in February 1949.

 Faucett (Compania de Aviacion Faucett, S.A.).

Routes: Faucett's routes are domestic only, connecting Lima with all important cities in Peru. In addition to coastal routes extending to the Ecuadoran border in the north and the Chilean border in the south, Faucett's extensive trans-Andes routes connect the developed coastal strip with a number of the most im-

portant points throughout the relatively undeveloped eastern portion of Peru (including Iquitos, Cajamarca, and Pias in the north, Tingo Maria in central Peru, and Puerto Maldonado, Cuzco, and Iberia in the south).

Equipment:

2 DC-4

7 DC-3

7 Stinson-Faucett F-19

Ownership: Faucett is a closely held company and details concerning its ownership are obscure. Although Mr. Elmer J. Faucett, who founded and has always directed the airline, has probably never held a controlling interest, it is believed that majority stock control is held by private Peruvian citizens. The US airline, PANAGRA, through a wholly owned, non-operating Peruvian airline, probably holds an approximately 25 percent minority interest. A Spanish resident of Peru also holds a minority interest.

Faucett was organized and began operations in 1928.

(2) TAM (Transportes Aereos Militares).

Routes: TAM is the air transport component of the Peruvian Air Force and has operated commercially principally on a space-available basis. As a result of its primarily military nature, most of its operations are non-scheduled and its scheduled operations are on an informal basis. TAM operates extensively in southern Peru and has four scheduled services over two routes from Iquitos: to Yurimaguas, and to San Ramon, a military base, via Pucalipa.

AIRLINES OF PERU				
		(October, 1949)	
Airline	Unduplicated Route Miles*	Scheduled Miles Per Week	Number of Aircraft (Various Types)	Ownership
Faucett TAM	3,904 2,588	37,983 10,152	16 7	Obscure 100% Gov.
TOTAL	6,492	48,135	23	

The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

ORE Tr-1750



Equipment: 7 DC-3

Ownership: 100 percent Peruvian Government (Peruvian Air Force).

This airline has been operated by the Air Force since 1946, after having been established by the Peruvian Navy in 1927 and later operated as a civil airline.

b. Foreign Scheduled Airlines.

International service to Peru is maintained by four foreign airlines. The US carrier, Braniff Airways, stops at Lima on its route from the US to Rio de Janeiro via Habana, Panama, Guayaquil and La Paz. A second US airline, PANAGRA, provides non-stop service from Panama to Lima en route to La Paz, Santiago and Buenos Aires. PANAGRA also serves the Peruvian cities of Talara, Chiclayo and Arequipa on various other international routes. British Overseas Airways Corporation (BOAC) transits Lima on its Barranquilla-Santiago trunk route, and the Brazilian carrier, Panair do Brasil, maintains service up the Amazon from Manaus (Brazil) to Pebas and Iquitos in the northeastern corner of Peru.

APPENDIX S

URUGUAY

Government Organization for Civil Aviation.

Administration of Uruguay's civil aviation is the responsibility of a Directorate of Civil Aeronautics (DAC), acting under the jurisdiction of the Ministry of National Defense. The DAC supervises the national airline, PLUNA, as well as all other commercial aviation activity, air facilities, and aero clubs. The government agencies concerned with aviation in Uruguay are organized as shown on the chart below.

Domestic Civil Aviation Policy.

a. Civil Aviation Legislation.

A commission composed of representatives of civil and military aviation was appointed by the government late in September 1949 to draft legislation for the development of aviation in Uruguay, but little information is available on Uruguay's current basic aviation legislation. The country's principal domestic airline, PLUNA, was reorganized in 1945 on the basis of an organic law of 1944 setting it up as a mixed company, including both government and private capital. While this law authorized the acquisition of private shares by the State, it did not encompass the final organization of the company as an autonomous entity of the Uruguayan Govern-

ment. PLUNA, however, is now wholly government-owned and new legislation has been drafted to provide for its changed status. A law of 5 December 1940 (No. 9977) fixes the yearly subsidies paid by the Government to aero clubs.

b. Regulation of Uruguayan Airlines.

Since 1943, the DAC has gradually assumed more direct control of civil aviation activity within Uruguay. Because of the country's small area, the concentration of population in one urban area, and its adequate railway network, there has been little incentive either in private or in governmental circles for the establishment of a more extensive air transport network. Present Uruguayan civil aviation policy appears to have the aim of providing adequate air service by whatever means are most convenient. Repeated overtures have been made by the government to induce the privately owned Uruguayan scheduled carrier, CAUSA, which has had a record of successful operations on its short international routes, to merge with PLUNA, which for a long time has been considered an inefficiently managed and poorly organized enterprise. Although CAUSA has consistently resisted such a merger, the DAC con-



tinues to subsidize CAUSA and to countenance its private ownership, in order to ensure continuation of its valuable services between Montevideo and Buenos Aires. Under the government's reorganization plans, PLUNA is designated as the eventual instrument for the operation of all internal services and for routes to Rio de Janeiro, Santiago de Chile, and to Europe. Uruguay's ability to compete with the many well-established international operators now flying these routes, however, has been challenged in Uruguayan aviation circles, and suggestions have been offered that such ambitious efforts be diverted toward improving and expanding service within the country.

c. Regulation of Foreign Airlines.

Uruguay encourages all international carriers to make traffic stops at Montevideo. Since Uruguay has not yet ratified any of the bilateral air agreements it has initialed, foreign airlines receive their operating concessions directly from the government through the DAC.

d. Promotion of Other Aviation Activity.

Airfields and facilities are being steadily improved by the government in order to attract more international traffic.

Activities of the 32 aero clubs in Uruguay are aided by government subsidization of their pilot training programs. All but three or four clubs have at least one light sport plane, and a large number are equipping their organizations with ambulance planes in order to provide improved medical services for outlying areas.

International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

Uruguay apparently supports liberal principles of international air traffic, since it has placed no restrictions on the operations of international carriers and has initialed Bermuda type air transport agreements with the US, the UK, and the Netherlands. Although the Uruguayan Congress has not formally ratified any of these bilateral agreements, for all practical purposes they are in effect.

International Organizations.

A major step toward Uruguayan membership in the International Civil Aviation Organization was taken in September 1949, when the Uruguayan Chamber of Deputies approved adherence to the Convention. Approval by the Senate and signature by the President are expected to follow in short order.

c. US Technical Assistance.

Uruguay did not take advantage of an offer of a US technical assistance mission in 1947 and the offer was withdrawn in 1948 because of pressing requirements elsewhere.

4. Airlines.

a. Uruguayan Scheduled Airlines.

CAUSA's profitable international route from Montevideo to Buenos Aires has been operated without interruption since 1938, but PLUNA's domestic services, started in 1936, have been much less dependable and were interrupted for two years (1943–45) while PLUNA was being reorganized. In 1939, CAUSA concluded an agreement with the Argentine airline "Corporacion" for provision of equal capacity by the two airlines on the Buenos Aires-Montevideo route. ALFA assumed these joint operating rights when "Corporacion" was reorganized in 1947.

CAUSA (Compania Aeronautica Uruguaya, S.A.).

Routes: CAUSA operates two international routes to Buenos Aires, originating flights from both Montevideo and Colonia. The service from Montevideo is operated in conjunction with the Argentine airline, ALFA, under a pooling arrangement.

CAUSA's service from Colonia offers surface transport connections to Montevideo. During the summer tourist season, CAUSA also operates a week-end service from Montevideo to the popular Uruguayan beach resort, Punta del Este. This connects with the Buenos Aires service. No other domestic services are operated by CAUSA.

Equipment:

- 2 Junkers JU-52/3m
- 3 Short Sunderland

Ownership: 100 percent private Uruguayan.

(2) PLUNA (Primeras lineas Uruguayas de Navegacion Aerea, SEM).

Routes: PLUNA operates three domestic routes out of Montevideo, two of which serve



AIRLINES OF URUGUAY

(October, 1949)

44			October, 1949	,	
	Airline	Unduplicated Route Miles*	Scheduled Miles perWeek	Number of Aircraft (Various Types)	Ownership
,	CAUSA PLUNA	154 1,250	2,772 15,660	5 5	10 0% Pri vate 10 0% Gov.
	TOTAL	1,404	18,432	10	

* The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

ORE Tr-1950

the periphery of Uruguay. The third route crosses Uruguay directly to the Brazilian border, serving Rivera (where connection is made with the Brazilian airline VARIG) and Artigas. PLUNA also operates an international non-stop service between Montevideo and Porto Alegre, Brazil.

Equipment: 5 DC-3

Ownership: 100 percent Uruguayan Government.

b. Foreign Scheduled Airlines.

Pan American World Airways (PAA) is the only US carrier serving Uruguay. PAA's east coast route to Buenos Aires includes non-stop service to Montevideo from both Porto Alegre and Rio de Janeiro.

Montevideo is also on the Latin American routes of the following six European airlines, receiving service en route to Buenos Aires from various Brazilian cities.

TOM VALIDUS DIE	teman cides.
Airline	Nationality
Air France	France
Alitalia	Italy
BOAC (British (seas Airways C ration)	
KLM (Royal D	utch Netherlands

Airlines) Iberia Spain

SAS (Scandinavian Norway, Denmark, Airways System) Sweden

Two Latin American airlines serve Montevideo: the Argentine carrier, ALFA, operates from Buenos Aires in conjunction with Uruguay's carrier, CAUSA; and a route from Pelotas and Porto Alegre, Brazil, is flown by the Brazilian carrier, VARIG.



APPENDIX T

VENEZUELA

1. Government Organization for Civil Aviation.

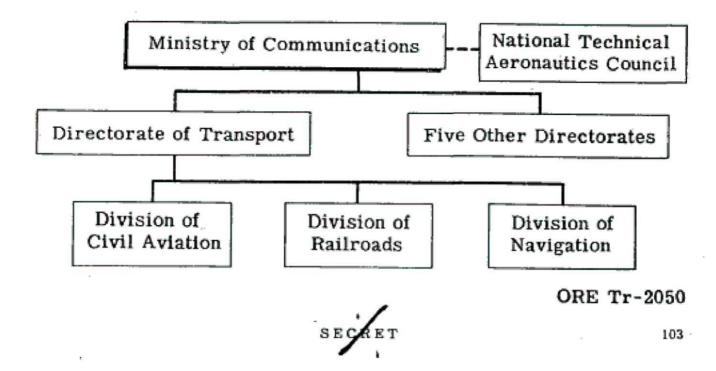
Civil aviation in Venezuela is the responsibility of a Directorate of Transportation acting under the jurisdiction of the Ministry of Communications. The Directorate of Transportation (one of six departments in the Ministry of Communications) performs its functions through: (1) a Division of Civil Aeronautics; (2) a Division of Railroads; and (3) a Division of Navigation.

Most officials of the Ministry of Communications are well informed on aviation matters and have been urging reorganization measures to centralize the various civil aviation functions.

A plan for the reorganization of the government's civil aviation functions was prepared by the Ministry of Communications, with the collaboration of the US Civil Aviation Mission, and has been accepted by the present Military Junta. This reorganization was to have been put into effect in

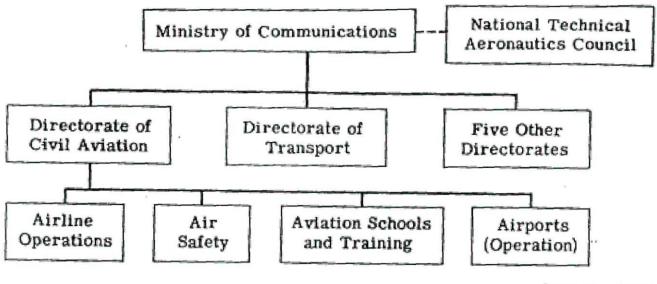
July 1949, if funds were made available, but there is as yet no indication that the plan has been implemented. According to the proposal, a Directorate of Civil Aviation (DAC) would be created at the level of the Directorate of Transportation and would assume the government's civil aviation functions. The DAC would be composed of sections for Airline Operations, Air Safety, Aviation Schools and Training, and Airports. The planned unification of all civil aviation functions within a single organization, however, received a setback in July 1949 when, over the objection of the Directorate of Transportation, the government decreed that the function of maintenance of airports would be the responsibility of a Directorate of Harbors and Airports under the jurisdiction of the Ministry of Public Works.

Governmental responsibility for the function of civil aviation is presently organized as follows:





The proposed reorganization would establish the following relationships:



ORE Tr-2150

In January 1946, a National Technical Aeronautics Council was created as a dependency of the Ministry of Communications. This five-man council functions as an advisory agency on air communications, routes, and airports and is composed of representatives of the Ministries of War and Navy, Public Works, and Communications, as well as representatives of LAV (the national airline) and of the National Council of Transportation Routes.

In September 1947, a seven-man advisory commission was created to study and advise on all matters pertaining to the relationship of Venezuela to the International Civil Aviation Organization (ICAO). In February 1949, moreover, jurisdiction over the Venezuelan delegation to the ICAO was transferred from the Ministry of Foreign Affairs to the Ministry of Communications.

The National Civil Aeronautics Inspection Board was reorganized in 1947 to improve its services.

Domestic Civil Aviation Policy.

a. Civil Aviation Legislation.

With the assistance of a US Civil Aviation Mission, Venezuelan aviation laws have been revised along the lines of US legislation. A new Civil Aviation Law to replace the Law of 1944 was enacted by the Venezuela Congress in 1948, but the Military Junta of Government has not yet taken action on the law.

Decree No. 58 of 22 May 1948 replaced a decree of 1947 as the basic law governing the administration of LAV. According to Article 32 of the 1948 law, LAV is authorized to participate in the creation of a company for international operations, in which Venezuelan capital must retain majority stock control and effective control of the organization.

Foreign capital participation in all other Venezuelan airlines is also limited by law to 49 percent, majority control to reside in Venezuelan nationals.

b. Regulation of Venezuelan Airlines.

The separation of civil aeronautics from Air Force control after the 1945 revolution greatly improved the position of Venezuelan civil aviation, especially commercial operations. With the exception of increased aid and promotion of LAV, no change in civil aviation policies appears to have resulted from the assumption of power by the Military Junta in November 1948. The proposed reorganization of the Division of Civil Aeronautics would render it a larger and more autonomous entity, with virtually complete control of all civil air affairs.

The objectives of the present Division are: (1) the expansion of the State airline LAV; (2) the construction and improvement of air facilities; and (3) the encouragement of private flying. LAV is operated by the government as an independent entity and receives generous financial assistance. The government also participates to a limited extent in the capital of the two other Venezuelan scheduled carriers. Through LAV, it holds a 7.5 percent interest in AVENSA, and a 12.2 percent interest in TACA de Venezuela. Competition with the established carriers, especially with LAV, is discouraged, as are nonscheduled operations. To date, only cargo carriers have been authorized to operate nonscheduled services within Venezuela.

c. Regulation of Foreign Airlines.

Since the inauguration of international services by LAV in 1946, the operations of foreign airlines have been subject to closer surveillance by the Venezuelan Government. Although Venezuela favors the operation of US airlines into its territory and also encourages non-scheduled flights to Venezuela from abroad, it is willing to grant permission for such services and flights only when they do not compete directly with LAV. Moreover, Venezuela has asserted its right to approve the tariffs of all foreign airlines stopping in Venezuelan territory. The privileges of cabotage enjoyed in Venezuela for many years by Pan American World Airways were terminated 15 October 1947. Venezuela's only bilateral air agreement is with the US and that has not been ratified. Therefore, all foreign carriers operate to Venezuela on the basis of permits issued by the Directorate of Transport.

d. Promotion of Other Aviation Activity.

It is Venezuelan policy to bring the construction and improvement of all aviation facilities under control of the government. In accordance with an extensive program planned early in 1948, substantial government appropriations have been expended for the gradual purchase of existing airfields and the improvement or construction of additional facilities. Perhaps the greatest obstacle to the progress of Venezuelan civil aviation has been the country's lack of adequate airports, communications and meteorological facilities.

Improvements have been made at all of the principal traffic centers within the past few years, however, as well as at most of the secondary airports. Extensive improvements now in progress on the Caracas airport, La Carlota, will prevent use of that facility until at least the middle of 1950. In addition, studies are being made of the possibility of providing air service to other population centers throughout the country.

Plans for the unification of the existing private air communications systems were formulated during 1947 and a private company, Radio Aeronautico Venezolano, was formed for that purpose. Although most of the domestic and foreign airlines agreed to participate in the company, little actual progress has been made on unification of services. A comprehensive plan for a modern, government-controlled airways communication and navigation system has been prepared by the US Civil Aviation Mission for the consideration of the Ministry of Communications, and it is probable that this proposal will eventually be adopted.

The five Venezuelan flying clubs receive no direct subsidies from the government. They are all equipped with aircraft, however, and benefit indirectly from the training given at the government-operated school, "Miguel Rodriquez," at Maracay, which offers training to both air and ground personnel.

The Polytechnic Institute of Aviation, established at Caracas in 1948, offers Link trainer instrument flight training under government auspices, as well as instruction in navigation, meteorology, aerodynamics, and radio, for pilots of the domestic airlines and private fliers.

There is no production of airframes or aircraft engines in Venezuela. The country is one of the best markets in Latin America, however, for the sale of aviation equipment.

3. International Civil Aviation Policy.

a. Air Traffic Policy and Air Agreements.

Motivated by a desire to protect its national airline from undue foreign competition, Venezuela's air policy toward foreign airlines tends to be restrictive. For example, Venezuela has opposed the recognition of Fifth Freedom air rights in a multilateral agreement and also believes that air routes should be negotiated on a bilateral basis.

Negotiation of a US-Venezuela bilateral air agreement, the only Venezuelan air agreement to date, was concluded on 14 May 1948. Continued Venezuelan failure to ratify this agreement, however, has required each country to grant temporary operating permits to the airlines of the other country. Venezuela's LAV is currently seeking extension of its temporary operating permit or the grant of a permanent one by the US Civil Aeronautics Board (CAB). On the other hand, Chicago and Southern Air Line (C&S) of the US holds a temporary Venezuelan permit of indefinite duration (presumably until ratification of the agreement). Although C&S has been certificated by the US CAB to make traffic stops at Habana, its Venezuelan permit does not authorize the carriage of traffic between Habana and Caracas since such service would be in direct competition with LAV.

b. International Organizations.

Venezuela has taken an active part in the International Civil Aviation Organization (ICAO) since it adhered to the Chicago Convention in April 1947. LAV is a member of the International Air Transport Association (IATA).

c. US Technical Assistance.

In July 1948, at the request of the Venezuelan Government, a US Civil Aviation Mission was assigned to Caracas to assist the Ministry of Communications in planning its services related to commercial aviation. A communications specialist was added to the mission later in the year. This mission collaborated with the Ministry of Communications in the preparation of a plan for reorganization of the civil aviation functions within the Venezuelan Government (see Section 1). In addition, a number of LAV employees and officials of the Ministry of Communications have taken advantage of Civil Aeronautics Administration training courses in the US.

4. Airlines.

a. Venezuelan Scheduled Airlines.

The three Venezuelan scheduled airlines have maintained a steady development since the end of the war. These carriers, LAV, AVENSA, and TACA de Venezuela, have ex-

tended their routes, acquired additional modern equipment, and have substantially increased their passenger and freight traffic. Although LAV was authorized in 1948 to participate in the creation of a new international airline (see Section 2, a.), there seems to be little prospect of this plan being carried out in the near future.

Military pilots are used in rotation for LAV operations because insufficient numbers of civilian pilots are available. Although LAV's credit is good, several large government appropriations have been necessary to cover its indebtedness and keep the line in operation. In the past, politics have figured heavily in the administration of LAV. Recently, however, more efficient administration of the airline has made some progress in eliminating its heavy operating losses. LAV has a fairly good safety record.

Key personnel in AVENSA, the Pan American World Airways (PAA) subsidiary which was established in 1943, were recruited from PAA. The staff is composed largely of Americans, in spite of the fact that AVENSA's franchise from the Venezuelan Government requires that its employees shall be exclusively Venezuelan nationals within its first four years of operation.

US personnel have also played an important role in the operations of TACA de Venezuela. Although it was required by the 1945 reorganization of TACA that 75 percent of its executive personnel and 50 percent of its operational personnel be Venezuelan, almost all pilots are North Americans, while co-pilots are mostly Venezuelan.

A small cargo line, Compania Rutas Aereas Nacionales, S.A. (RANSA), was authorized in May 1949 to add chartered passenger service and scheduled cargo service to its former non-scheduled cargo operations. This airline operates a fleet of three C-47's and three C-46's. Two other small airlines, CAVE and SAVANA, have been authorized during 1949 to operate non-scheduled cargo service within the country.*

^{*} In November 1949 Compania Anonima Viajes Expresos (CAVE), a Venezuelan non-scheduled passenger and freight airline, was authorized by the Yenezuelan Ministry of Communications to conduct

(1) AVENSA (Aerovias Venezolanas, S.A.). Routes: AVENSA's operations, which are domestic only, serve the principal cities of the populous northern and coastal regions of Venezuela in a generally east-west direction from the border of British Guiana to the Colombian border. Routes are regularly operated from Guiria (opposite Trinidad), Maturin, and Ciudad Bolivar in the east to San Antonio in the far west of Venezuela, via the northern cities of Caracas," Coro, and Maracaibo.

Equipment:

- 1 DC-4
- 14 DC-3
- 2 C-47 (cargo only)
- 2 Lockheed Electra
- 1 North American AT-6
- I Stinson Reliant

international services to Europe. To implement this permit CAVE organized an international division, Aerovias Venezolanas Europa (AVE), and with two leased DC-4 aircraft commenced weekly service to Madrid, Paris, and Rome in mid-January 1950. In June 1950 AVE was operating two weekly flights to Lisbon, one flight continuing to Rome, the other to Madrid and Paris.

 All airlines serving Caracas use Maiquetia Airport, near the coastal city of La Guaira. Ownership:

55.45 percent private Venezuelan

37.05 percent US (Pan American World Airways)

7.50 percent Government of Venezuela (through the airline LAV, which is owned by the government).

AVENSA was the first privately owned commercial airline to be established in Venezuela, receiving its operating permit from the government in May 1943.

(2) TACA de Venezuela (Linea Aerea TACA de Venezuela, C.A.).

Routes: TACA's principal domestic routes serve the same general area as those of AVENSA; i.e., the populous northern coastal region of Venezuela. In addition to its predominantly east-west routes in the north, TACA also operates from Caracas south to San Fernando in central Venezuela, and from Ciudad Bolivar south to Icabaru on the Brazilian border. TACA operates one international route to the capital of Colombia, Bogota, from Caracas and Maracaibo.

AIRLINES OF VENEZUELA

(October, 1949)

Airline	Unduplicated Route Miles*	Scheduled Miles per Week	Number of Aircraf (Various Typ	
AVENSA	1,833	62,279	21 .	
TACA	3,243	61,955	19	42.8% Private 12.2% Gov. 45.0% TACA
LAV	7,308	84,774	34	100% Gov.
TOTAL	12,384	209,008	74	+

^{*} The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

Equipment: 19 DC-3

Ownership:

42.8 percent private Venezuelan

12.2 percent Government of Venezuela (through the airline LAV, which is owned by the government)

45.0 percent TACA Airways, S.A.

(which is controlled by US interests)

TACA de Venezuela was organized in August 1944 and commenced scheduled operations in January 1945.

(3) LAV (Lineas Aeropostal Venezolana). Routes: Domestic. The majority of LAV's domestic routes lie in the populous Caribbean coastal region and extend to all principal cities in northern Venezuela, including Caracas, Coro, Maracaibo, Barquisimeto, Barcelona, Maturin, and Ciudad Bolivar. Southern Venezuela receives LAV service over the following routes: Barquisimeto to Guasdualito in the west, Caracas to Puerto Ayacucho in the center of the country, and Ciudad Bolivar to Santa Elena in the east. (The latter route extends across the Brazilian border to Boa Vista.)

International. LAV's principal international route links the country with Habana and New York. Other international services are flown to neighboring countries: Aruba (N.W.I.), Trinidad (B.W.I.) and, as indicated above, Brazil (Boa Vista). Although LAV has an interline agreement with LANSA, the Colombian airline, for joint Caracas-Bogota service, only the latter is actually operating over this route.

Equipment:

- 4 Lockheed Constellation
- 2 Martin 202
- 24 DC-3
- 3 Lockheed Lodestar
- 1 Stinson

Ownership: 100 percent Venezuelan Government. LAV is an autonomous government corporation.

LAV was organized by the Venezuelan Government in 1933 to take over the operations of the Venezuelan branch of the French airline, Compagnie Generale Aeropostale, which had gone bankrupt.

b. Foreign Scheduled Airlines.

Venezuela is served by two US-flag scheduled airlines: Pan American World Airways

(PAA), and Chicago and Southern Air Lines (C&S). PAA operates two routes from the US to Caracas via Curacao: one from New York and San Juan, and the other from Miami and Ciudad Trujillo (Dominican Republic). In addition, PAA operates an east-west service along the Caribbean coast of South America from Trinidad to Panama. This route passes through four Venezuelan cities: Maturin, Barcelona, Caracas and Maracaibo, and makes connections in Panama and Trinidad for other points in Latin America. The second US operator, C&S, links the US and Venezuela over a Houston-New Orleans-Habana-Kingston-Caracas route. This profitable operation serves the two major petroleum-producing areas of the Western Hemisphere.

Two US non-scheduled operators, moreover, have been granted Venezuelan authorization to perform scheduled services between Venezuela and Europe. Those carriers, Transocean and Trans-Caribbean, operate from Caracas to Rome, where connections via other airlines are made for Madrid, since direct flights have not been authorized by Spain.

The Spanish airline, Iberia, inaugurated direct one-carrier service between Madrid and Caracas in the summer of 1949. An Italian carrier, LATI, also commenced service about the same time, linking Caracas and Rome via Sevilla. Service from Caracas to Lisbon and beyond is offered by KLM, the Royal Dutch Airline, which also operates numerous flights from Curacao (its West Indies Division headquarters just off the Venezuelan coast) to Maracaibo, Caracas, and Barcelona en route to other points in the Latin American area and to Europe.

British West Indian Airways also serves Venezuela in its Caribbean operations, originating flights to Caracas from Trinidad and Barbados and continuing on to Curacao and Kingston, Jamaica.

With respect to Latin American airlines, the Brazilian carrier, Aerovias Brasil, makes a traffic stop at Caracas on its Rio de Janeiro-Miami service, entering Venezuela from Port of Spain and continuing on to Ciudad Trujillo.



APPENDIX U

AIRLINES OF BRITISH COLONIES AND PUERTO RICO

AIRLINES OF THE BRITISH COLONIES & PUERTO RICO

(October, 1949)

		(00.00.			
	Airline	Unduplicated Route Miles*	Scheduled Miles perWeek	Number of Aircraft (Various Types)	Ownership
Trinidad	BWIA	4,854	33,598	9	Brit, Govt.
Jamaica	(BCA CIA	1,126 327	3,770 654	3 (Brit. Govt. Brit. (Priv.
Bahamas	BAL	752	1,250	5	Brit. Govt.
Brit. Guiana	BGA	1,800	2,179	4	U.S.
Puerto Rico	CAA	388	12,051	3	U.S.
TOTAL		9,621	56,022	25	

* The term "Unduplicated" refers only to those route miles which are not duplicated by an individual airline.

ORE Tr-2350

1. British Colonies.

Civil aviation affairs in the British colonies of Trinidad and Tobago, Jamaica, and the Bahamas are in each case supervised by a Department of Civil Aviation in the Colonial Government, although final responsibility for the determination of policy rests with the Ministry of Civil Aviation in the UK.

a. Trinidad.

This colony is the operational base for British West Indian Airways, Ltd. (BWIA), which operates the most extensive network of any of the airlines incorporated within the Caribbean area. There is no local air service on the island of Trinidad.

BWIA was organized in 1940 by Mr. Lowell Yerex, the founder of the TACA System (see Panama, Section 5). The company was owned entirely by Yerex until 1943, when it was incorporated and shares were sold to the public. Yerex soon sold his 40 percent stock interest to TACA Airways, S.A., the non-operating holding company for the TACA System,

which in turn gradually sold all of this stock to British citizens. During 1947, British Overseas Airways Corporation (BOAC), an entity of the British Government bought up all shares in BWIA.

Routes: BWIA's colonial routes connect Port-of-Spain, Trinidad, with all the important British possessions bordering the Caribbean Sea and with British Guiana. Operations also extend west to Kingston (Jamaica) and Belize (British Honduras). BWIA's international routes extend from St. Kitts and Kingston to Ciudad Trujillo (Dominican Republic), and from Port-of-Spain and Barbados to Caracas (Venezuela) and beyond to Curacao (Netherlands West Indies). From Curacao, BWIA provides direct connections to Kingston.

Equipment:

- 4 Lockheed Lodestar
- 5 Vickers Viking

Ownership: 100 percent British Government.

Trinidad is probably the principal air hub on the northern coast of South America. In addition to the extensive service provided by BWIA to points in the Caribbean area, the airlines of five countries connect Trinidad with points in the US, Canada, and South America:

Pan American World Airways (PAA). Trinidad is the eastern terminus for PAA service across the northern coast of South America, as well as the southern terminus of PAA's Antilles routes. In addition, it is an important traffic stop on PAA service from the US to the east coast of South America.

Trans-Canada Air Lines (TCA). Trinidad is the southern terminus of TCA's routes from Canada either via Bermuda, or via Nassau (Bahamas) and Kingston (Jamaica).

Royal Dutch Airlines (KLM). KLM's West Indies service connects Trinidad with Curacao, Barcelona (Venezuela), and Paramaribo (Dutch Guiana).

Aerovias Brasil. Trinidad is a traffic stop on Aerovias Brasil's Rio de Janeiro-Miami service via Paramaribo, Caracas and Ciudad Trujillo.

Linea Aeropostal Venezolana (LAV). LAV serves Trinidad on a route connecting with Maturin and other points in Venezuela.

b. Jamaica.

This island is too small to support more than token air service within its territory. Two cities, Kingston and Montego Bay, are on international routes and, although a good road connects them (85 miles), there is sufficient travel between the cities to justify an air-shuttle service by British Caribbean Airways (BCA).

Jamaica has been served on international routes since 1930, when PAA began service to the island. In addition to BCA, a second company, Caribbean International Airways (CIA), bases its operations in Jamaica, although the latter company is registered in Nassau (Bahamas). Both are relatively new airlines, BCA having been organized in 1946, and CIA in 1948. A Jamaican family owned BCA until October 1949, when British Overseas Airways Corporation (BOAC) purchased the stock. BCA's operations reportedly will be merged with those of British West Indian Airways (BWIA). The main activity of CIA is charter flying. Although it has operated a weekly scheduled service between Kingston and the Cayman Islands since June 1948, CIA

has not been formally authorized by the British Government to conduct scheduled service on this route. In June 1949, the US Civil Aeronautics Board granted CIA a permit for non-scheduled service between the Cayman Islands and Tampa, Florida.

British Caribbean Airways, Ltd. (BCA).
Routes:

Kingston-Montego Bay Kingston-Miami Montego Bay-Nassau

Equipment:

2 DC-3

1 Lockheed Lodestar

Ownership: 100 percent British Government (through BOAC)

Caribbean International Airways, Ltd. (CIA).

Routes: Kingston-Cayman Islands (scheduled)

Kingston-Tampa (non-scheduled)

Equipment: 1 PBY

Ownership: 100 percent private British citizens

The following six international airlines serve Jamaica:

Pan American World Airways (PAA) provides direct or connecting service to Kingston from most of the important traffic points in the Caribbean area. In addition, Montego Bay is served from Camaguey, Cuba.

Chicago & Southern Air Lines (C&S) serves Kingston on flights from New Orleans to Caracas, and also operates from Houston to Kingston via Habana.

Royal Dutch Airlines (KLM) operates to Kingston from Port-au-Prince, Haiti, and from Aruba (Netherlands West Indies).

British West Indian Airways (BWIA) offers direct service from Ciudad Trujillo and Curacao.

British Overseas Airways Corporation (BOAC) provides Kingston with service from Europe via Bermuda or Nassau en route to Panama and South America.

Trans-Canada Air Lines (TCA) serves Kingston on its Canada-Trinidad route.

c. Bahamas.

Air transportation was introduced to this British colony by PAA in 1929 over a route serving the tourist traffic between Miami and Nassau. Bahamas Airways (BAL) also operated over this route for a short time, but now flies from Nassau to West Palm Beach. BAL is the only airline now operating scheduled services within the Bahamas.

Bahamas Airways, Ltd. (BAL)

Routes: BAL connects Nassau with the outer islands of the northern part of the Bahama group. Scheduled international flights are operated between Nassau and West Palm Beach. Charter operations are conducted throughout the Caribbean area.

Equipment:

- 1 PBY
- 1 Consolidated Commodore
- 2 Grumman Goose
- 1 Republic Seabee

Ownership: 100 percent British Government (through BOAC).

In addition to BAL's flights, the Bahamas are served at Nassau by Pan American World Airways (PAA) on a direct flight from Miami, by British Overseas Airways Corporation (BOAC) en route from Bermuda to Habana, by Trans-Canada Air Lines (TCA) on its Canada-Kingston-Port-of-Spain service, and by British Caribbean Airways which connects with Montego Bay, Jamaica.

d. British Guiana.

British Guiana Airways, Ltd. (BGA), the only airline in this colony, has been owned and operated since 1934 by Major A. J. Williams, a US citizen. BGA conducted charter operations until 1939, when it signed a three-year agreement with the Government of British Guiana to operate scheduled service to interior points. In return, BGA received an annual subsidy. It is not known, however, whether this subsidy was continued after expiration of the original contract. The government has never attempted to replace BGA with a Britishowned air service and has even refused permission for other airlines to operate within British Guiana. The Colonial Government took action in 1948 to reduce BGA rates.

Routes: Five routes radiate from Georgetown to all sections of British Guiana except the region north of that city. Most of the towns served are river ports in the interior. Charter operations, both within and outside British Guiana, are also an important activity of BGA.

Equipment:

- 2 DC-3
- 2 Grumman Goose

Ownership: 100 percent private US.

British Guiana is served by Pan American World Airways on its service from Port-of-Spain to Paramaribo, Cayene and points in Brazil. British West Indian Airways also provides connections with Port-of-Spain, as well as Barbados.

2. Puerto Rico.

Caribbean-Atlantic Airlines, Inc. (CAA) was incorporated in Puerto Rico in 1939. Both CAA and its former rival on the island, Aerovias Nacionales de Puerto Rico, Inc. (Aerovias), applied to the US Civil Aeronautics Board for operating permits in 1939 and 1940, respectively. The applications were consolidated by the Board and CAA was issued a certificate in 1942 to operate between certain points in Puerto Rico, and also to St. Thomas and St. Croix in the Virgin Islands. Aerovias was denied a certificate and went out of existence shortly thereafter. CAA continues to enjoy the distinction of being the sole US carrier incorporated in the Carribean area.

Routes: Caribbean-Atlantic connects the island of Puerto Rico with the Virgin Islands, and with the Dominican Republic. It also operates two short routes within Puerto Rico.

Equipment: 3 DC-3

Ownership: 100 percent private US citizens. (The company is at present controlled by three members of the Trigo family who hold 65.9 percent of the capital.)

Two US carriers and one French airline serve San Juan, Puerto Rico.

Pan American World Airways (PAA) connects San Juan directly with New York, Miami, Cludad Trujillo, Curacao, and Port-of-Spain. In addition, San Juan is the northern terminus of PAA's route through the Lesser Antilles.

Eastern Air Lines (EAL) also provides direct Miami-San Juan service.

Air France serves San Juan from Guadeloupe and Martinique with PBY aircraft. SECRET

Title:	CABLE TO OSO/OPC FROM (DELETED) RE GUATEMALA 1954 COUP
Abstract:	
Pages:	0001
Pub Date:	1/19/1952
Release Date:	4/16/2003
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP
Case Number:	SS-2003-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

CIA HISTORICAL REVIEW PROGRAM RELEASE AS SANITIZED

FORM HO. DEC. 1947 35-5

CENTRAL INTELLIGENCE AGENCY

SFIED MESSAGE

		SECRET	AT LON® PA	ge No.
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To:	oso/opc	*	19	JAN 52
Action:	- WHD (1-2	2-31	iN	14620
Information:	IR (4-5) RC (10)	, AD/SO (6), OPS (S/C (11-12-13), C	7), PLANS (8), S OP (14)	TC (9),
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REF :	655.			
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CASTILLO	ARMAS IN MEXIC	O OR EL SALVADOR A	FTER TRIP TO U.S.	. WHERE HE
OBTAINED	HELP PLANNING	OVERTHROW GUATEMAL	A GOVERNMENT. (NOT BELIEVED
TO BE HER	Ε).			
	2. SUBJECT T	OLD THAT CASTILLO	HAS SUPPORT 1/3 (OF ARMY,
INCLUDING	FIFTH ARMY DI	STRICT QUEZALTENAN	30.	
	3. □	I REPORTED HEL	PING CASTILLO FRO	MIHTIW MC
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Title:	CABLE TO OSO/OPC FROM (DELETED) RE GUATEMALA 1954 COUP
Abstract:	
Pages:	0001
Pub Date:	2/20/1952
Release Date:	4/16/2003
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP
Case Number:	SS-2003-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

CIA HISTORICAL REVIEW PROGRAM RELEASE AS SANITIZED

FORM NO. DEC. 1947 35-5

200 CLASSIFIED MESSAGE CENTRAL INTELLIGENCE AGENCY

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PAGE NO.

	FROM: T SECURITY IN	FORMATION" ROUTINE
	_	HOU! THE
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	Paraphrase Not Required. Handle as SECRET	Correspondence per Pars. 51 (1) 60A AR-380-5
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	1. \[] 1. REPORTED TH A. \[\] O/A 11 FEB 52 WHERE SHE SAW CASTILLO HERE SOON. EVAL 8-2. B. SHE ALSO BROUGHT \[\]	T RETURNED FROM MEXICO CITY
	COMPLETE CONTROL GUATEMALAN GOVERNMENT	FIRST DAYS MARCH. EVAL 8-6. TO HAVE SAID SALVADORAN COMMIE
		*

Ø151Z 21 FEB 52

TOR:

SECRET

COPY No.

Title:	GUATEMALAN SITUATION
Abstract:	
Pages:	0005
Pub Date:	3/17/1952
Release Date:	4/14/2003
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP
Case Number:	SS-2003-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

SECKEL

EYES ONLY

2003

17 March 1952

MEMORANDUM FOR: DEPUTY DIRECTOR OF CENTRAL INTELLIGENCE

1. Conversations between Mr. L

FROM:

Acting Chief, Western Hemisphere Division

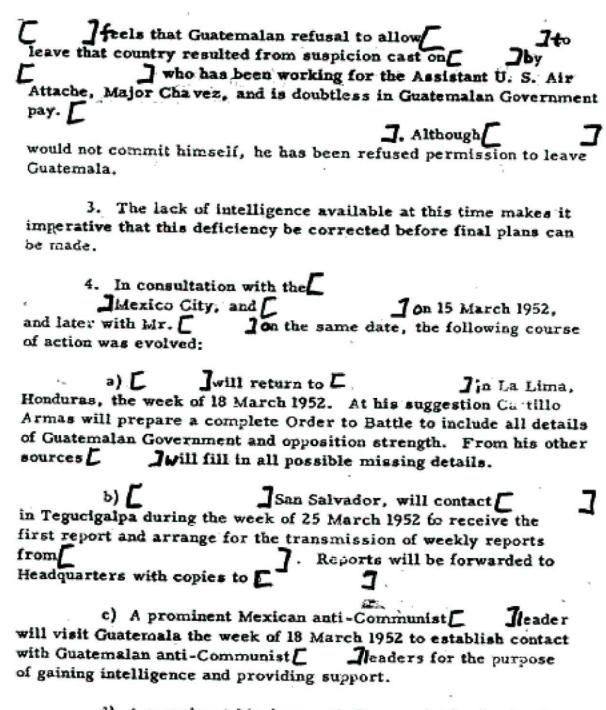
SUBJECT:

Guatemalan Situation

Jin New Orleans on 13 March 1952 Jend [revealed that Col. Castillo Armas is unable to leave Tegucigalpa, I is unable to leave Guatemala. Honduras, and at this time. [] Verified that only he and MR. [] are aware of U. S. Government interest in this matter. He indicated his belief that Castillo Armas and have a good chance of succeeding, but also indicated uncertainty as to their plans, resources, requirements, and opposition. cooperation was complete to the extent of In order to complete the conversations. His In Mexico City directed full cooperation. orders to Conversations between L Jia Mexico City on 14 March 1952 confirmed Is not fully informed on present opposition plans, resources, requirements, and their opposition although he is in communication with and has the full confidence of Castillo Armas 7. Castillo has the moral, and cossibly some material, support of ex-President Carias of Honduras and the good will of Fresident Galvez. He has been promised the support of President Somoza of Nicaragua who has offered to send a personal representative with him to ask aid of President Trujillo of the Dominican Republic. Lindicated that he is not certain of the chances for success of any movement at this time, but expressed confidence that sufficient opposition to the present Guatemalan regime exists or can be generated and mobilized to insure the success of a well organized movement. He verified that Castillo Armas can not leave Egucigalpa at present because of pressure by Guatemala on President Galvez of Honduras. (Galvez has promised

Ithat in an emergency Castillo can leave Tegucigalpa.)





d) A prominent Mexican anti-Communist leader has been refused admittance to Guatemala because of his anti-Communist activities. His exclusion from Guatemala will be widely publicized, but his group will receive intelligence from and render support to the organized anti-Communist group in Guatemala headed by Carlos Simmons.



- 1 will be expedited.
- f) As the required intelligence becomes available the PW campaign against the present Guatemalan Government will be intensified. Al PW weapons will be utilized under the direction of
- g) As the IW campaign develops, parallel efforts to swing the balance of power to the opposition will utilize all resources to unite and strengthen the opposition and weaken the present government. If the Guatemalan Government does not fail of its own weight it is conceivable that more direct measures may eventually become necessary, and clanning for such an emergency will proceed. However, at this time, the primary effort in this field must be directed toward forestalling any premature attempt to take over the government by force.

WH/

Distribution:
Original - Addressee
cc - Inspector General
Col. King
WH/MID (3)



Born: 1914

/5: 5", 135 lbs., elender, black heir, dark brown eyes

Strong personality; soft and slow speaking; serious, hard worker; intelligent, amenable to ideas; analytical mind; studious; light drinker.

Lducations

6 years of primary school

2 years Industrial Technical School of Guatemala

3 years basic military studies at the Military Academy

6 months specialised in Artillery at the Military Academy

l year basic course in School of Applied Tactics, Quatenala

3 months, General Staff course (Ground) Ft. Leavenworth, Kansas

42 months, Service Course at Ft. Leavenworth.

Corsers

Entered the Hilitary Academy - June 1933 Graduated - June 1936 Captain - June 1939 Major - June 1984

Lt. Colonel

post.

Commander of Artillery Unit, Ft. Matamoros - 1936 - 1937

Instructor of Artillery, Ft. Matamoros - 1937 - 1942.

Chief of Artillery of the Atlantic Sector - 1942 - 1944.

First Chief of Expeditionary Force for the Defense of the
Atlantic Sector - July 1944.

Instructor of Artillery, Ft. San Jose - Sept. to Oct., 1944.

Anief, G-4 Section, General Staff, Oct. 1944 - June 1945.

Anief, G-3 Section, General Staff, June 1945 - November 1945.

Sub-Director of Military Academy, Nov. 1945 to March 1947.

Professor of Tactics, Second Course, Military Academy, May 1946 - Mar. 1947

Director of Military Academy - March 1947 until early 1949. Then

transferred to become chief of garrison at Magatenango, a secondary

Detailed to visit USMA in Sept. 1947.

Definitely pro-American. Cooperated with U. S. missions and the Military Attache.

On Saturday, 27 August 1949, the government police arrested CASTILIO Armas, Chief of Masatenango garrison. CASTILIO was an Arenista. When the government called for him to send troops to the capital on 18 July 1949, he arranged to have his soldiers miss the train which stopped in Masatenango for them. Following the 18th, he was naturally very much out of favor with the government, and he resigned his army commission and became a sivilian. As a stillian he appears to have



SECURITY INFORMATION

started organizing a revolutionary movement immediately.

- CASTILIO Armas is well-known for his integrity and patriotism. He has made no secret of his opposition to the present moral corruption of those in power. He has steadfastly refused to accept any position offered by ARBENZ, apparently not wishing to compromise his reputation by being associated with the regime.
- CASTILIO Armas led an armed attack on the Military Base the 5th of November 1950. In the attempt, he was wounded. The movement failed, and he was imprisoned.

(According to the AIR/ATTACHE, - reports say that CASTILIO Armas is a very close personal friend of ARBENZ - but the law had to be complied with regarding such revolutionary acts by an officer in the Guatenalan army.)

The evening of 11 June 1951, CASTILLO Armas escaped from the National Prison, took refuge in one of the embassies, and was granted salvo conducto to El Salvador.



SECURITY INFORMATION

Title:	GENERAL-POLITICAL MATTERS - SPECIFIC-GUATEMALA		
Abstract:			
Pages:	0018		
Pub Date:	4/1/1952		
Release Date:	4/16/2003		
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP		
Case Number:	SS-2003-00002		
Copyright:	0		
Release Decision:	RIPPUB		
Classification:	U		

DISPATCH NO. DML 2667 Air Pouch DATE: 1 April 1952 Chief, Western Hemisphere Division CIA HISTORICAL REVIEW PROGRAM FROM Political Matters SUBJECT: GENERAL-Guatemala. SPECIFIC-112, WASH 32290, WASH 32423, As a result of referenced cables, contact was made with LINEAGE in Mexico City. A room in a private club was obtained under a ficticious name and all subsequent contacts were made in this room. LINEAGE was presented to MALEY and TWICKER, whose names and identities were not made Various conversations were held with known to him, by Subject, during which it was ascertained that he is an intelligent, sincere, individual, whose motivation seemed to be patriotic. From the beginning he stated that although he was actively participating in the subversive movement, CASTILLO Armas, presently in exile in Honduras, was better aware of the military aspects of the movement. After preliminary conversations, arrangements were made whereby LINEAGE would submit in writing all phases of the situation as it exists at the present time in Guatemala. Subject needed several days to organize his thoughts and put them into written form. These reports reflect that subject has been extremely frank and cooperative, although specific information concerning the military phase is definitely lacking. A study was made of the information submitted who likewise contacted subject and by him in written form by _____ who likewise contacted subject a discussed the information submitted as well as suggesting that alternate operational approaches be given serious consideration by himself and CASTILLO Armas. had returned to Arrival. Prior tol Honduras for business reasons, and prior to his departure he was briefed as to what specific information he should obtain from CASTILLO Armas, which information was to be forwarded to headquarters immediately through secure channels. 4. LINEAGE returned to Guatemala on March 1952 and suggested the possibility of having someone in Guatemala who could maintain contact with him and keep current on their revolutionary activities. He was advised that this idea would be considered and he would be advised of the decision. He further stated that in any event if he were not contacted within the next two or three weeks, he might return to Mexico to furnish this office information on his current activities. He stated, should he return to Mexico, he Tof his plans, who in turn will communicate them to will advise SECURITY INFORMATION

CLASSIFICATION

FORM NO. 51-28 A

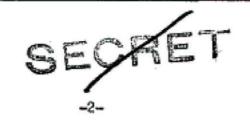


2nd. There exists a well organized espionage and counter-expionage service within the army which makes the Commanding Officers, as well as corporals and sergeants to distrust one another. Any suspicion is enough motive to cause a vacancy, that is, to be dismissed. On the other hand, the Cammanding officers with power manakes are attracted and enticed by good salaries, bondses, and extra salaries; with promotions, decorations, diplomatic and consular posts; with trips abroad and scholarships to study in foreign countries; they are presented with automobiles, gasoline, lots to build their homes, and facilities are given for them to build their homes; the commissaries of the Army provide them with all they need for themselves and their families at low prices and on credits casinos are open to them and they enjoy other privileges and certain impunity.

In this manner the military men in service feel satisfied and remain loyal, with the logical criterion that if the government so desires, all the profits and privileges they enjoy now will end. Discipline has fallen off greatly, and the ideas of patriotism, honor, honesty, spirit of sacrifice and character which all militarymen should have, have slackened considerably. Of course, there exists among the officers, corporals and sergeants who do not enjoy these privileges, a dissatisfaction which they hide because of of their fear/as their fellow members and of the agents in the espionage service; these agents in turn act with the fear of the agents in the counter-espionage servide. In this manner the army has remained loyal to the government.

3rd. There is no question that there is division and discontent in the army, because there are honorable military men who understand the exact condition of the present movement and who are not in conformity with the





Sovietization of the country. Advantageous use can be made of this division and discontent.

FORCES WHICH SUPPORT THE GOVERNMENT

The Army and the Civil Guard should be listed in the first place; and secondly, the Communist Organizations; Confederación General de Trabajadores de Guatemala (Central Unica)(General Confederation of Workers of Guatemala - Central Unica), Comunidades Agrarias (Agrarian Communities), Partido Comunista (Communist Party), Partido Revolucionario Obrero (Workers Revolutionary Party) and Frentes Populares (Popular Fronts).

The Army is composed of the following:

Office of the Chief of the Armed Forces
Higher Council of Defense
Ministry of Defense
Army General Staff
Presidential General Staff
Auxiliary Branches, such as Communications,
Military Engineering, Military Administration, etc.

The principal barracks, bases and military zones are the following:

Seneral Barracks, with a garrison no larger than 100 equipped men;

Aurora Military Base, with a complement of from 1,000 to
1,200 men;

Guard of Honor Barracks, with from 800 to 1,000 men;
Presidential Guard Barracks, with men 600 men; and
The Matamoros Fortress with approximately 600 men.

At the Military Base of Aurora manchantered and at the Guard of Honor can be found heavy and light artillery, anti-aircraft machineguns, tanks, machinegus, rifles, munitions and all other war arsenal. At the Presidential is Guard there/arm modern and light equipment; and at the Matamoros Fortress there are artillery, rifles and machineguns, but they are not modern. These military centers are located at the Capital of the Republic.



In the States (Departamentos) there are six military zones: two type "A" in Quetzaltenango and Zacapa, the first in the western region of the country and the second in the eastern region. Each one of these zones has approximately a personnel of/800 men, equipped with artillery, cannons 75 celiber anti-aircraft machineguns, regular machineguns, rifles, munitions and dynamite. There are 4 zones of type "B"and these are located at the capitals of the States of Cobán, Mazotenango, Jutiapa and El Quiché. The first one is at the northern zone, the second at the southwest region, the third at the east, at the frontier with Salvador, and the last one at the northwestern region; with the exception of the zone of Jutiapa which has approximately 500 men with some heavy equipment, the others have some 400 men each and they are equipped with light armament.

GARRISONS: The one at Puerto Barrios, on the Atlantic, with 250 men, with light equipment and some anti-aircraft machineguns; At Puerto San José, on the Pacific, there is a garrison of greater importance. Also, there are some smaller garrisons in the State Capitals, and in other ports and frontier towns; their equipment is obsolete and they have few munitions.

The preceeding data are approximate numbers, but can be verified at any time.

GUARDIA CIVIL: There are two barracks in the capital; first and second barracks; the first is located in the old Convent of San Francisco or next to the building of the General Division; the second one is found in the old Ia Merced Convent. These two barracks have a personnel of from hand 800 to 1,000 men and the equipment they have rifles,/grenades, gas bombs and f a few machinegums. At the building of the General Division there is modern equipment consisting of machinegums, rifles and sufficient manitix ammunition. At the State capitals there are garrisons of the Civil Guard



which are badly equipped and badly manned.

There is also the Guardia de Hacienda (Treasury Guard) which is of no importance from a military point of view.

from 16 to 20 observation and pursuit planes. All of them are models of a few years ago.

In any difficult situation in which the government might find itself due to a revolutionary assessed or seditious movements, the members of the Communist organizations would immediate go to police headquarters to get equipped. Also they would go to their arms deposits and would act on the side of the government.

THE OPPOSITION: ITS ORGANIZERS AND RESOURCES

In view of the situation which confronts the country and as a means of combatting the **C**ommunism which has penetrated the different organisms in the nation and which has spread extensively among the people, the following is being prepared:

- a) The civic fight; and
- b) The armed fight.

In the civic fight, numerous persons are fighting who belong to the old political groups: "Partido Liberal" (Liberal Party) and "Partido Conservador" (Conservative Party); The anti-Communist Party, as an organization; numerous elements from the extinct political parties - "Social Democrático", "Demócrata", Liberal Progresista", Acción Nacional" and anti-Communist civic groups of/University students, Comité Cívico, professionals, laborers and catholic farmers, merchants, industrialists, and real estate men.

The different constituents form the following groups:

- 1. Organization Anticomunista de Estudiantes Universitarios, which is made up of almost all the students of medicine, odonthology, natural sciences and pharmacy, engineering and political and social sciences. Communism has penetrated strongly among the students of humanity and economic sciences. There is an organization among the students of law which is perfectly defined as Communist, but it does not take in the majority of the students of law. The university students have great followed among the different circles of the country and they are directed by persons perfectly well versed in the political-social panorama of Guatemala. It awaits the armed fight to work actively in the civic movement.
- 2. Anti-Communist Union. This is a party which has been working for several years with organizations in nearly all the states of the country. There are many of their members which can well be used in any military action.
- 3. Other organizations which act separately and which intervene, giving a push to the civic movement.

The strength of the church is behind all these groups, also the strength of capital and of all ousted political and military men, the middle class, formed by farmers, laborers with their own workshops, small businessmen, etc. In order to try the strength of all the enti-Communist organizations, demonstrations are being all over the country, demanding the government to drive out the numerous Communist foreigners, to dismiss the Gustemalan Communists from public offices, to ban the Communist party and all training and propagands centers. The plan is to maintain anti-Communist agitation to prepare the ground for the armed fight. Anti-Communism is also supported by non-unionized laborers who have been oppressed by synticates, by women merchants in the parkets and by religious preparations.

**

Agry was



The covernment, the Communist Party, the syndicates and the popular fronts, all are afraid of this movement which was been mixed called by the press and the radio of imperialist, nazist, fascist, Ubiquista, Pondista, etc., adding that it is supported by foreign capital and is preparing a subversive movement directed by Gol. Castillo Armas and Cemeral Vigual Idigoras Fuentes. When the demonstration of for the 23rd of this month was planned, Professor Victor Manuel Gutierrez, Secretary Cemeral of the Central Unica de Sindicatos Groanofy Campesinos, and chief of the Communist Farty in Guatemala, made an appeal to all the organized workers to get ready for fight against anti-Communism which aims, as he stated, the overthrow of the government, and placed at the orders of the army the 80,000 (?) workers who comprise the syndicates. The official press started a strong attack against anti-Communist organizations calling the movement seditious, and it won't be long before clashes occur which might prove bloody.

The Communists are preparing demonstrations and concentrations in the capital which might bring a crisis that the government might be to restrain guards and proceed with the persecution, jailing, deportation and attempts against the leaders. It is also possible that the government may adopt a moderate position and accede to some of the demands the trains in this manner to frustrate the movement, but no change in the politics politics can be expected for the aforementioned reasons.

The fighting spirit in all these organizations is high, but they lack arms, amountain and fighting equipment. The strike or stoppage that could be carried out in business, ind stry, markets, hospitals and some public offices, could easily be controlled by the government inastrohest political strike, if it is not followed immediately by insurrection is descined to be the latter. The correct strike is the first residue to be assumed in the latter.



be very difficult the Swaterplans the rid themselves the dictatorship of the proleterist which is already apparent x and which will take place in a not distant future.

THE ARRED PRIGHT

For some years now the armed fight organized, by preparing public opinion, awakening the ambition of military men in service in the army, convincing the capitalists of the terrible danger that is nearing, trying to obtain military equipment, trying to bust the syndical union, trying to get the collaboration of the church, and fighting through every to present available/by those who, convinced of the serious situation of Guatemala, have been and are ready to go ahead, no matter what, to attain a violent and definite change of the present government, and to punish those who have been dragging the nation to chaos, which means economic, weak social and colitical ruin.

The following are in thearmed fight:

- a) Organization of University Students, are ready to take arms and

 M act in the different operations to which they may be detailed. Supported

 by other groups, they may act in controlling **Samurnis** communications: such

 as telegraphs, telephones, radio station**, post office, roads, etc.; sabotage

 in on bridges and roads, electric power, supplies and anything else that

 say be necessary, with the collaboration of technical personnel to restore

 such services and take advantage of them for the revolution.
- b) The necessary personnel to take over Puerto Barrios: docks, aviation fields, customs, railway installations, etc. by means of a military coup helped by the burbing of the barracks. I would be necessary to get equipment consisting of hand grandess, gas bombs, some machinegums, rifles and ammunition. With the equipment text might be taken if t is operation

how many?

who know proves successful, the other revolutionaries will be equipped. A with the port captured, it would be declared revolutionary some and the other countries would be requested traregurates Puerto Barrios is an extremely important place, not only for being the only equipped port of the country on the Atlantic, but also because it has me a first class /airfield. This operation would be directed by military chiefs under the orders of the Jefatura General.

- c). People required from h00 to 600 men are needed to take over the Military Base of Aurera immediately & following a heavy bombardment. Light equipment, hand grenades and gas bombs would be needed. After the Sa taken, the different anti-Communist groups could be equipped with the captured material. Military officers would immediately reorganize this base and they could make use of the military equipment left serviceable. The operation would be led by Commanding Officers appointed by the Jefatura General and once the base is taken, the airfield at Aurora would be controlled, where supplies could be taken to continue the fight.
 - d. The number of men needed, hoo to 500 recruited in the neighboring towns and in the States of Santa Rosa and El Progreso) which would act against the Honor Guard immediately following a heavy bombing. Less equipment would be required than to take the Base of Aurora, inasmuch as it is a closed military establishment. By the results of the bombardment the demoralization of the soldiers and officers would becomplete and immediately accomplashed. This operation would be carried out, as the previous ones, by Commanding Officers appointed by the Jefatura General.
 - e). With 200 men recruited from La Parroquia, Candelaria and Canales, the barracks of the Presidential Palace and Callejón Manchen could be captured inmediately following its bombardment. As in the case of the

-9-

led by military chiefs designated by the Jefatura.

Guard of Honor, demoralization would be complete and its surrender would be easy, thus immediately neutralizing the lesser partison that exists in the general barracks. I For this operation there would be required hand bombs, incendiary bombs, machineguns and assumition. This operation would be

1. Thinking

- f). XXXXXXX A similar military operation would be carried out at the Fortaleza de Matamoros immediately after an aereal bombardment. Light equipment such as machine guns and bombs, and if possible some howitzers, would be required.
- g). The military zone of Zacapa, provided its cooperation with the movement is not obtained, would be attacked by surprise as indicated for Who Puerto Barrios. Enough people are available for this operation.
- h). Once Puerto Barrios falls in the hands of the revolutionaries, the radio station there would be used to send a proclamation to the country. By this means the news would reach the chiefs and officers of the military zones of Quetzaltenango, Mazatenango, El Quiché, Cobán and Jutiapa that the movement has started and they would lean in favor of the revolution. The members of the anti-Communist organizations would immediately go to man these zones, to organize garrisons with the recruits and to march the troops to the capital. For this operation, all the vehicles of the states would be taken and perfectly and perfectly the moment when the operations start. It is expected that there will be military uprising in these military zones.
- i). After the uprising of the military zone of Quetzeltenango, there would be an immediate mobilization of from 1,500 to 2,000 men in Momostenango and the village of La Esperanza, all militiamen, already organized with their respective corporate, sergeants and officers. These people could be armed at the indicated zone and could march to the capital to strengthen the

Mr. km3

W/O PARTE



- j). All the existing anti-Communist organizations would follow the movement in all the republic, taking all the garrisons, and capturing all the authorities, the politicians, Communists and their sympathizers.
- k). At Salamá, capital of the state of Paja Verapaz, a batallion which is already organized would be appointed. Once this place is taken, it would be ready to march to the capital by the road or by railwood, alighting at the "Zl Rancho" station.
- 1). At El Progreso we rankt count with another organization which could have from 300 to 500 men immediately to take over the place and get ready to march to the capital. These people are militiamen and have their chiefs and officers, but they would be under the movement's Jefatura General.
- m). At the state of Jutiapa we have sufficient people to man the zone, get equipped and march to the capital after having organized their new authorities and controlled it, capturing all the Communists and their sympatrizers.
- n). At Tacatepeques we could immediate bring to arms 800 men, and could bring this number, shortly after initiation of the operation, to 3,000 men if it should be necessary. The place of La Antigua would be taken, and if equipment can be had, these people could be in the suburbs of Guatemala City in less than one hour.

 Wo! If his. by Ch.
- o). In many villages of Chimaltenango, Chiquimula, Santa Rosa and other states there are indian communities which would uprise under the orders of their caciques if this is advised to them by their catholic priests.
- p). In the military barracks and those of the Guardia Civil of the capital, there are military men who would be on the side of the revolution.

Jacks?

Jack ?

Wishful Theres

As stated before, all the anti-Communist organizations of the country will be mobilized at the time the the revolution where and they will take control of the different states, immobilizing the maintaneously.

Communist and syndical chiefs in whichever way it is necessary.

At the capital, groups will be organized, equipped with rifles and revolvers, and if possible, with hand grenades, the incendiary bombs, and gas bombs.

They will have charge of the capture of the military chiefs in service who might be outside where their barracks, the arrest of all foreign or Guatemalan Communist whise leaders, syndical and political leaders, and the occupation of the Communist centers and the houses or places where there may be armaments. These groups would present a stand guard on legations and embassies to prevent known which them from giving a sylum to the Communists or responsible politicians; also, they would have control of all outlets of the capital.

It is expected that by means of surprise bombardments and the execution of Communist leaders, politicians and military men, a great deal of probability of success will be attained.

The liaison people seem sure that they can expect the uprising of the zones which have been referred to above, but that it is imperative to have aereal military action which is sufficient and efficient.

The leaders of groups are assured of having all the human element nacessary for the different operations which have been set forth above, and that, once the attack is started successfully, the groups will increase considerably. They request the necessary elements to be able to act, and the required funds, which would be controlled by persons of absolute reliability by their namesty and their belief in the movement.

Juits?



All the operation, civil and military, will be under only one Jefature:

***PARTMENTAL THE General stairs of the Pevolution and the Revolutionary
General Staff. The general stairs of the Pres, if they should be organized,
or the military chiefs of each one of them, will be subordinate to the

Jefatura General so that there may be absolute unity of command. The
coordination of the different armed operations will be under the chief

which may be designated by the Jefature General. All the chiefs of the
civilian
different/groups will also be under the Jefatura General and will act
according to the orders and instructions which they may receive. Each
military operation will be directed by chiefs appointed by the Chief of
the movement. All the military plans, their development and their

will fall under the Jefatura General de los Revolucionarios.

WHAT IS CONSIDERED DOUISPENSABLE

The Jefatura General of two movement, in agreement with the general staff which they may organize with capable, brave military men who believe in the revolution, shall be the one to indicate what war equipment and help will be needed, but it should be taken into consideration, from this moment on, that the necessary number of bombers, modern, well equipped with military personnel, arms and hands high power bombs should be obtained, in order to completely annihilate the fighting power of the government.

The leader of the movement should call to an agreed secret meeting place, all the military chiefs who will fight with him, in order to discuss the plans, the operations and the help that may be needed, and should return to Guatemala in order that they may organize the different operations in accordance with the approved plan. All the civilian and military organizations in existence should be under the command of the military chiefs that may be appointed and they will proceed with great tact, and due discretion.

SE DET



The leader of the movement, basing to the reports sent him by
the military chiefs, and in agreement with the persons who will provide
the combat equipment, will set the day and time in which the revolution
will start. In the magnitume, the civic organizations will continue the
their activities, thus confusing the government, and when everything is
ready for the military coup, the impression will be given that the civil
movement has failed, which will give confidence to Communism and to the
government, and this moment should be taken to act militarily.

It is indispensable that the equipment the chief of the movement requests be furnished, which should be done a few days before, or at the time of initiating the armed fight, because of the risks that entering them into the country clandestinemy may entail. It is essential to obtain all that may be needed, without any limitation, if success is to be attained.

It is also indispensable to have economic resources in order to be able to carry out all the movements indicated above. The collaboration of military experts in this will be extremely helpful; this gives a guarantee for the success and confidence in the ability of the plans, confirmation of the human resources available, effectiveness of the military analysis available and proper management of the funds provided. The cooperation of experts in command operations who would operate in the capital and in Puerto Barrions would be greatly appreciated and perhaps indispensable.

We have information that Col. Castillo Armas and General Idigoras

Thentes have reached an agreement; if this were not true, conversations

should be started towards that end. In the Republic of Guatemala there are

organizations are follow General Idigoras Flentes, which have moraxed promised

their collaboration under the con and of Col. Castillo Armas, but, if such

organizations should have knowledge of an agreement between both military

men, and that General Idiporas accepts the commandian of Col. Castillo Armes, they would act with more enthusiasm and decision. The organizations manip mentioned herein would not accept the command of General Idigoras Fugates.

A statement or problemation by General Idigoras to his followers at the moment of starting the revolution pointing out that he supports Col. Castillo would be very valuable.

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Upon the success of the revolution, a

Upon the success of the revolution, a government world be organized which will immediately inform the people regarding the reasons which justify the overthrow of a regime rotten by the international Communist, built on the blood of those who made possible the fall of a system recordiated by Guatemalar and whose policies have tried to destroy the unity of the nation, promoting the fight between the classes and cementing hatreds which did not exist before; it will define its antiin Communist ideology declaring emphatically that/the Republic of Guatemala there is no room for Communism or for the Communists, and that the new government will proceed energetically against the traitors who have wanted to make Guatemala dependent of the Union of Socialist Republics.

MANAGEMENT

The constitution will be repealed revolutionarily and the Congress dissolved. The country will be governed by decrees untilit it returns to normalcy. All measures will be taken for the pacification of the country: dissolution of Communist organizations and syndicates, Agrarian communities and popular fronts; all foreign Communists with mexican remaining in the country will be described and the Guatemalans will be dismissed from the offices they hold and judged by regular courts; all

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political activities will be suspended until the nexximularmental new constitution is made and based on it, the powers of the state organized.

The government could be entrusted to the leader of the revolution who will immediately designate the Ministers of State, which appointments should be made of persons who due to their moral integrity, their capabilities and ability to work will protect the new government.

The army will be reorganized with the elements who have fought on the side of the revolution and it will be equipped with modern equipment for the defense against any Communist reaction with or provide outside of the country.

The desperatic institutions will be maintained as far as possible de fector within a ferror government, proving that the new regime has prestige due to its own acts.

The judicial branch will be cleaned/xxx all the Communist elements infiltrated and crimes will be tried no matter who committed them. The proceedings will be in accordance in the laws and with no spirit of vengeance.

The international policies will suffer immediate changes: suspension of diplomatic relations with the Soviet; resumption of relations with the Dominican Republic, Venezuela, Peru, Spain and with the other countries with which the government of Dr. Arévalo broke relations or rejected upon a recognition.

An emphatic declaration will be made that Dustemala is in America and with America and not in or with another continent. A fundamental point will be made that the new government recognizes and respects all the international agreements in force, entered into with nations or national organizations of the world. The relations with the united States of America will become closer in a sincere maximum and effective manner, ith full spirit of collaboration.

Foreign capital invested in real estate and the war that in the country shall have full guarantees, and the doors will be open to foreign capital which intends to develop the natural resources of the nation or to create new sources of rights wealth.

Once order is restored, a new era of work and national reconstruction will start, giving guarantees within the ideology and definition of the new government. In due time a constituency will be called to the new the constitution of the country in which/democratic principles which inspired the revolution will be incorporated.

After the new constitution of the republic is proclaimed, the state powers will be organized and the camef of the envernment will be designated or elected, which designation should fall on a person of great moral integrity, with belief on the ideology and the definitions of the revolutionary movement.

The demagogism, peculation, laziness, bureaucracy and all the other faults of the present regime will be prescribed, persecuted or severely sanctioned in accordance with the laws.

CONCLUS IDMS

- a). All the ideas set forth herein will be discussed with the leader of the moment and upon being approved, a formal agreement will be drawn to compet its fulfillment. The terms may be changed or modified, but without altering the fundamental part in which it is based;
- b). All plans of military operation, organization and berging out, will be in charge of the leader of the movement, and the statements made above remain as su gestions for conversations with the leaders of groups and military lisison personnel. The changes in operations which may be suggested will not alter the agreement to cooperate:

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t concerning rerment. pouch.

- c). The reports of military or civilize cooperation have been applied by the leaders of different organizations and by limison men with military men in service in barracks and or parrisons:
- d). The military help that must be given must be complete both ε conomically and militarily or it may be supervised by the persons \mathbf{x} designated by wheever is going to provide such help;
- e). It would be terribly important to know have suggestions, ideas or recommendations from whoever is going to help to the liberation of Guatemala. Suggestions, ideas or recommendations be appreciated and considered:
- f). This memorandum should not be considered as complete or definite, inasmuch as the suggestions, advices or dispositions of the leader of the military movement should be added to it; and
- g). If the melp and cooperation requested is obtained, it should be worked **astimaly** inside and outside of Guatemala actively, independently, and secretly, with the confidence that it is possible to light with the assurance of success. Until today that confidence has been lacking.

Mexico, D. F., Mexico

24 March 1952



Title:	GENERAL SITUATION IN CENTRAL AMERICA
Abstract:	
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Pub Date:	5/27/1952
Release Date:	4/16/2003
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Release Decision:	RIPPUB
Classification:	U

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SECURITY INFORMATION

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MEMORANDUM FOR: DIRECTOR OF CENTRAL INTELLIGEN

VIA:

Deputy Director of Central Intelligence His seen .

Deputy Director (Plans) Has seen.
Assistant Director for Special Operations

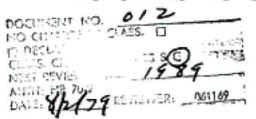
SUBJECT:

General Situation in Central America

1. Between 6 and 18 May, Havana, Panama, San Jose, Managua, San Salvador and Mexico City were visited, and from Guatemala was met outside his country. Although most of the following information has been reported piecemeal and in greater detail by a review of the highlights of the Central American situation as a whole may afford a clearer picture of the problems ahead.

2. The leading leftist candidate to replace President Ulate of costa Rica in 1953 is Figueres, head of the Social Democratic Party. was reported that he intends to win the presidency either by legal elections or a resort to arms. He is in debt \$1,000,000 to groups upporting his candidacy, and this is given as one of the reasons why he must win, by fair means or foul.

- 3. His next door neighbor, President Somoza of Nicaragua, is informed of Figueres' plans. Somoza says he will not permit himself to be caught in a squeeze-play between leftist governments in Guatemala and Costa Rica but will take steps to prevent any such occurrences. If Somoza does not recover his health, there is no one of his caliber in Nicaragua to replace him. A leftist opposition group could easily take over.
- 4. The government of Guatemala recently furnished covert military aid in the form of 1,500 rifles and corresponding ammunition to a group in Honduras which is planning to overthrow the rightist pro-U.S. regime of President Galvez and ex-Dictator Carias. Galvez and Carias are aware of the arms shipment and have said that they have the situation in hand.
- Opposition to the Communist-infiltrated government of Guatemala has increased within the country since the passage of a decree expropriating the property of many of the landowners and offers an



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excellent

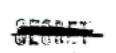
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SECURITY INFORMATION

excellent opportunity for a psychological warfare campaign during the next six months. Anti-Communist Guatemalans in exile will probably attempt to overthrow the Arbenz government soon after the end of the rainy season, which normally terminates in December, unless a peaceable change has been effected by forces within Guatemala. One danger in delay by the revolutionaries until next year is the attainment of a compromise agreement between the landholders and the Arbenz government, which will lessen the current resistance movement.

- 6. The one country in this group where indications are generally favorable from the United States' point of view, is Mexico. There has been a noticeable swing to the right in the past year, and it is expected the next President will be more active against the Communist Party and its members than any preceding ones. This is not because of any change in the basic ideology, likes and dislikes of the Mexican people but may be attributed to the opportunism of Mexico's corrupt leaders.
- 7. Panama, as usual, is overrun with rumors of forthcoming trouble. Many of these seem to be spread by the opposition to Remon in order to create an atmosphere of uncertainty which they believe will favor their objectives. There are reports of gunrunning by opposition groups and unsubstantiated predictions that Remon will not remain in power more than 120 days. There are conflicting reports about his health, some to the effect he cannot live out the year. He has no strong lieutenant to step into his shoes.
- 8. Adding to the general instability of Central America are three other factors: vicious anti-U.S. propaganda being spread on a major scale by Argentina's labor attaches, gun-running from Mexico, and the anti-U.S. activities of the Communists.
- 9. Of the three, the all-out Argentine propaganda attack against the United States seems much the most dangerous in all countries except Guatemala. In a small country such as Nicaragua there is reliable evidence that \$100,000 has been spent by Argentina in a three-month period for the sole purpose of attacking the United States. In Panama, Costa Rica, Nicaragua and Mexico the American

Ambassadors







Ambassadors express themselves as more concerned over Argentine propaganda than that emanating from Moscow. This is a development of the last year, which has been intensified since January. Argentine activities unquestionably give support to the plans of all anti-U.S. groups, Communist and other. The line followed is Marxist and is difficult to distinguish from Moscow.

- 10. The Communist Parties of Central America, with the exception of Guatemala, each consist of a few hundred members. To these must generally be added several thousand followers. There is little or no proof of outside direction except through members who make periodic visits to Moscow. As is usual with the Communist Parties of Latin America, they are chronically short of funds, but in spite of this they have been able to capture such a key country as Guatemala. We have one high-level penetration, in Costa Rica, a low-level one in Panama, a doubtful one in Nicaragua; the one we had in El Salvador was lost when he moved to Honduras, and in Guatemala we have a Spanish Republican who, although not a Party member, furnishes information on Communists.
- 11. The sale of arms by Mexico to revolutionary groups throughout the Caribbean adds to the instability of the area. We recently have assigned one man exclusively to an investigation of these sales. Although we know that they are being made, we are not yet informed how they are shipped, to whom and for what purpose. Reports so far indicate shipments have gone to the Guatemalan Government, the leftist group of Costa Rica, the Accion Democratica of Venezuela, some to unknown groups in Panama and some to Somoza.
- 12. In Mexico we are engaged in the most important operations of this Agency in Latin America. There are only four cities with top priority targets: Mexico City, Buenos Aires, Montevideo, and Caracas. The first two have USSR Embassies, the second two have USSR Legations. In Mexico there are Czech and Polish Embassies, and in Buenos Aires all the satellites are represented except Albania. While Buenos Aires has the largest number of installations of interest, it is the city where operating conditions are much more difficult than anywhere else in the territory of the Division. The only city where such progress has been made as to justify the hope of success within the next year is Mexico. In Mexico we are informed

of most



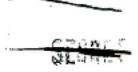
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of most Czech operations and within 60 days we expect to know of
many Polish plans.
against the Soviet Embassy, and it is believed that this, coupled
with extensive information from the Poles and Czechs, will place
us in an ideal position to take advantage of any crack, any weakness,
in the Soviet armor. Possibility of a physical penetration of the
Soviet Embassy is so remote as to make it unworthy of considera-
tion. To all intents and purposes the Embassy is a fortress where
physical surreptitious access would be possible only by tunneling
from without. Even if one should gain access, there are still so
many barriers between that point and the major target, it is highly
unlikely one could enter undetected.

exclusive of DTROBALO. Its priority targets are two, the penetration of the Communist Party -

currently





currently unsatisfactory, and travel control. Tocumen Airport is the crossroads of Latin America. Most travel by air to Central America, the north and west coasts of South America, and some travel to the east coast goes through Panama. This, combined with the unique facilities available for makes Panama the indicated place for an attempted access

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Distribution:
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Title:	A SUGGESTED PLAN FOR PSYCHOLOGICAL WARFARE OPERATIONS IN CONNECTION WITH OVER-A
Abstract:	
Pages:	0006
Pub Date:	9/1/1953
Release Date:	4/16/2003
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP
Case Number:	SS-2003-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U



ROUTING AND RECORD SHEET

INSTRUCTIONS: Officer designations should be used in the "TO" column. Under each comment a line should be drawn across sheet and each comment numbered to correspond with the number in the "TO" column. Each officer should initial (check mark insufficient)

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A SUGGESTED PLAN FOR PSYCHOLOGICAL WARFARE OPERATIONS IN CONNECTION WITH OVER-ALL GUATEMALAN OPERATIONS

PHASE I: 1

ATTACK!

- 1. Mexico will immediately report on Mexico-Guatemala covert transport facilities for PW materials including data on possible expansion and effectiveness of this mechanism.
- 2. Station Guatemala will be ordered to procure pix Vendle and re poverty, discontent, etc within one week.

3. Guatemalan COOKIES will be prepared. Some COOKIES will be surcharged with Communist symbols, pix and names for control ostensible use as Communist revolutionary COOKIES.

- 4. An immediate investigation of radio facilities inside and surrounding Guatemala will be made. (being worked on my marked)
- 5. EUFUS will be ordered to check and consolidate his control over radio, telephonic and military communications facilities.
 - 6. Propaganda materials designed to excite <u>discontentment</u> throughout Guatemala will be prepared and distributed. It will be aimed at low level targets, enlisted men and officers and special groups such as lawyers, students, etc. (Subjects will concern cost-of-living, Article 32, tortures, injustice and Communist influence among other subject material.)
- 7. Rumors and other propaganda materials will publicize any real or feasible possible threats to Guatemala which would tend incite <u>disloyalty</u> to the ARBENZ regime.
- 8. Letters will be prepared by a group of Guatemalans in Mexico and mailed day-after-day to a selected list of military leaders in Guatemala. These letters will explain why materials are not forthcoming to the Guatemalan army putting the blake on the shoulders of the Communists in the Guatemalan government. Only solution offered will be deposing of Communist influence.
- 9. A high level agent of RUFUS, in the Guatemalan Military, will begin "buttering-up" officers belonging to "Promocion 24" in order that they will later accept an invitation to his home on the night of D Day 1. (Rejected by SEEKFOHD as unnecessary)
- basis to Guatemalan army leaders telling them that they are not trusted and citing the fact that arms are being supplied by the Guatemalan government to Communist political and labor leaders throughout Guatemala. Similar letters will be mailed from within Guatemala from towns where said arms are cached.

11. The spreading of <u>rumors within the Guatemalan army</u> will be continued throughout all phases. Several themes are suggested below, but will have to be played "by ear" on-the-spot at appropriate times:

For Officers:

- A. Rumors about assignment of particular officers to worse posts:
- B. Soviet officers are going to be sent over to check on ideological proficiency of Guatemalan officers:
- C. Discussions are being carried on by Arbens and the Communists as to how military funds can be transferred to the development of a militant Guatemalan Communist Party;
- D. Certain officers are going to be liquidated;
 E. Arbenz is planning, with the aid of FORTURY,
 to establish a school for a Guatemalan MKVD.
 The graduates will be given high army rank
 and placed in charge of units.
- F. Several army officers in the interior, have already agreed to join insurgent forces. The officers named will be those known as loyal to ARBENZ.

For Enlisted Men:

- A. A cut in military appropriations in anticipated.
 Only enlisted men will be affected since officers have to maintain certain standards.
- B. Any inconvenience or bad morale factor should promptly by turned toward the Communists and officers playing ball with the Communists.
- C. The Communists are going to force all Catholic troops to leave the Church and join one which worships the memory of STALLE. Appeal to the Archbishop and tell your wives to get up a petition protesting atheist Communist policies.
- D. Such and such a unit, (known to have a good "deal")
 is going to be sent to some undesireable post.
- E. It is interesting to note that the sons of Communist politicians never serve in the Guatemalan army. They are too busy going to the USSR and swearing allegiance to it rather than Guatemala.
- F. Joe Blow died of food poisoning last week, another died of typhoid --- better not drink or eat much until this situation is investigated.

12. "Black" posters and handbills will be prepared in Headquarters and distributed within Guatemala which indicate that FORTUNY is intent on taking over activities of GUTTIEREZ and vice versa --- in contradiction to their aggreement.

PHASE II

- Rumors among officers and enlisted men in the Guatemalan army will be continued and intensified;
- Discontent propagands will be stepped up where-ever thought most appropriate, but special attention will be given to Guatemala City and other cities where military installations are located.
- 3. A phoney "Communist splinter group" will be created through production of a letterhead. Its contents will be prepared to try to create division among the Communists, and will be created by the Station, mimeographed within the Station and mailed in Guatemala City.
 - \$. Propaganda re threats of outside action will be continued through rumor and through Mexican PV outlets.
 - 5. "Black" handbills will be printed stating that the USSR, to revard its prime Communist example in the Western Hemisphere, is going to send gratis machinery, clothing and food to Guatemala. This will, of course, be timed so that no supplies could possibly be forthcoming and will be followed up with "grey" handbills pointing out the stupidity of the Communists for trusting the USSR, calling for the ridding of Communist influence in Guatemala.
 - 6. A letter from a Communist European front will ostensibly be mailed to FORTUNY, telling him that GUTIERREZ has been reporting to Moscow about the activities of FORTUNY and that unless GUTIERREZ can be silenced, FORTUNY may be purged.
 - 7. Tickets for an conting, scheduled for B Bay can be printed up for release the night before B Day. Enough free things can be promised so that many will come. People will have to travel toward military installations to reach the outing site thus creating a movement of innocents toward military installations, blocking road arteries and making felse diversion of treeps possible.
 - 8. Invitations to members of Profession 24" to a large party in honor of a high army officer will be issued for the night of D Day -1 by a MUFUS officer.
 - Letters from Mexico, Central America and from within Guatemala will continue to be sent to army officers.

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- amount of COOKIES will be sent to as many enlisted men as possible.

 The letter will ask enlisted men to sign the coupon, swearing allegiance to the USSR and the Guatemalan Communist Party and send the coupon to Communist Party Headquarters. COOKIES will be crude enough that they will be revealed for their true worth immediately upon trying to use them thus quickly creating a unhappy reaction toward the ostensible donors.
- 11. Radio broadcasts will be stepped up in countries surrounding Guatemala.
- 12. A "Communist cell" will be uncovered in Salvador which will contain: Pland for overthrow Guatemalan military; Plans for subversion of Central American governments; Plans for overthrowing the Guatemalan government; Photo posters of FORTUNY or whoever is picked as the ostensible "new President"; Soviet medals and commendations for new People's Republic of Guatemalan leaders and COOKIES surcharged with Communist symbols, names, etc.
- 13. The "plot" will be propagandized throughout the Western Hemisphere, be called attention to the UN and OAS which will also be publicized throughout Guatemala and the Western Hemisphere.

PHASE III:

- 1. "Black" propagands will proclaim the innocence of FORTUNY and put all the blame of GUTIEREZ, for the "Communist Cell". Black GUTIEREZ propagands, if needed, will call for a vote of "no-confidence" in FORTUNY.
 - 2. Rumors within the armed forces will be increased.
- 3. Aforementioned <u>letters to leaders of the armed forces</u> will continue to be mailed —— now varied to include quotes from the Communist cell material and guesses as to who would be liquidated if the Communists took over.
- 8. Communist "splinter group" mimeographed letters will be sent to non-Communist and Communist leaders pointing out all disaggreements of USSR backed Commis and call for formation of a nationalist Communist Party resembleing a communalism party setup such as was had in pre-Spanish conquest days.
- Through "official mail" COOKIES will be sent to labor leaders, army officers and others as a gratuity for their future support.
- 6. The 30 Day Plan will be instituted, with certain changes re only 20 days and concentration on Guatemala City and several other key targets.

- 7. It is assumed that RUFUS will have armed men in Guatemala City; RUFUS officers will have been assigned specific tasks; and all Communications, water and electric facilities will be under RUFUS control.
- 8. RUFUS troops will put mines in tank treads and smoke-fire bombs in air craft and as many vehicles as possible. (D-Day)
- they leave they will be abducted. Then an attempt will be made to assure their active cooperation for D-Day. If they agree, men will be assigned to insure that they do so. They will issue orders designed to confuse, dismay or force surrender of government troops.
- 10. The night of D 1, the <u>telephone</u> wires of Communist leaders will be severed at about mid-night or after Communists have retired.
- be packed with people going to the "outing". Among the innocents will be made hurus and the event of trouble will be causing a diversion of miltary strength from where it should be.
- has already taken place and announce a new democratic government with no Communist leanings. Communist horrors can be reviewed and again denounced. Government leaders part in International Communist plot will be reviewed and comments of the free world told about.
- 13. Telephone communications will be restored to cities where military installations are located. Commanders will be told that Guatemala has capitulated, and that other outposts have too. Lines between one outpost and another will have been cut to prevent inter-post communication and to assure a feeling of isolation.
- 14. Amid announcements of a new program RUFUS should make a strong show of strength to assure the populace of his ability to in fact continue to carmand an anti-Communist government. Water power and electricity will be restored and some extremely generous gesture should be made to the poor and to the army.
- 15. The Arch-Bishop may be induced into making a Church holiday and call for special masses to give thanks to God for the defeat of atheist Communism in Guatemala.

Title:	GUATEMALAN INTEREST IN MEXICAN AFFAIRS
Abstract:	
Pages:	0002
Pub Date:	12/8/1953
Release Date:	4/16/2003
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP
Case Number:	SS-2003-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

CIA HISTORICAL REVIEW PROGRAM RELEASE AS SANITIZED SECURITY INFORMATION

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CS-26598 REPORT NO. -COUNTRY 8 December 1953 in Mexican Affairs DATE DISTR. SUBJECT NO. OF PAGES September-October 1953 RD REQUIREMENT NO. DATE OF INFO. (12 October 1953) CS-25291 REFERENCES PLACE ACQUIRECT

THE SOURCE EVALUATIONS IN THIS REPORT ARE DEFINITIVE.

THE APPRAISAL OF CONTENT IS TENTATIVE.

(FOR KEY SEE REVERSE)

SOURCE: Individual with contacts among Mexican Government officials.(B). Appraisal of Content: 6.

has stated that he is convinced that certain officials
or the mexican Covernment are following the advice and guidance of Communists
from Guatemala, especially in matters of nationalization of industry, and
removal from U.S. control of those industries, particularly mining.

Stated, without giving details, that he has heard discussions along
this line during his visits to the office of President RUIZ Cortines.

2. On 10 October stated that he believed the Guatemalan contact between the Mexican Government and the Guatemalan Communists is one SOLORZANO, an official of the Guatemalan social security system.

Stated that SOLORZANO had invited him to come to work in Guatemala in social security and that could name his own salary.

Manuel TELIO, presently Mexican Ambassador to Washington and former Minister of Foreign Affairs, advised to guarantee his safety or return to Mexican Government would be unable to guarantee his safety or return to Mexico.

to assist in organizing the He has been classified as a political refugee and is believed to be in the process of obtaining Mexican naturalization. He is an official of the in an advisory capacity, and is reported to be very anti-Communist.

2. Alfonso SOLORZANO is director of the Instituto Guatemalteco de Seguridad Social. From 1931 to 1944 he resided in Mexico where he attended law school, joined the Communist Party of Mexico, and was active as a lawyer in the labor movement. He is reported to have at one time held the position of secretary to Vicente LOMBARDO Toledano. Although now openly a member of the pro-government leftist Partido de la Revolucion Guatemalteca (PRG) and serving on its political committee, SOLORZANO has stated privately that he continues to be a confirmed Marxist-Leninist-Stalinist. He said that he was expelled from the Mexican Communist Party because he opposed the theories of Earl Browder, North American Communist.

STATELY X ARMY X NAVY X AIR X F81 X AEC

(Note: Washington Distribution Indicated By "X"; Field Distribution By "#".)

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DIRECT

08-26598

F53

As Director of the IGSS he is in a position to wield considerable influence in government circles on behalf of his Communist beliefs and to make certain that other Communists gain positions of influence in the IGSS.

CONFEDENTIAL

ESTRICTED Security Information

Title:	FORMATION OF THE SOCIEDAD DE AMIGOS DE GUATEMALA
Abstract:	
Pages:	0001
Pub Date:	12/8/1953
Release Date:	4/16/2003
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP
Case Number:	SS-2003-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

CONFIDENTIAL

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SECURITY INFORMATION

COUNTRY C

1

REPORT NO.

CS -26596

SUBJECT

Formation of the Sociedad de Amigos

DATE DISTR.

8 December 1

de Guatemala

NO. OF PAGES

1

DATE OF INFO.

29 October 1953

REQUIREMENT NO.

RD

PLACE ACQUIRED F

REFERENCES

THE SOURCE EVALUATIONS IN THIS REPORT ARE DEFINITIVE.

THE APPRAISAL OF CONTENT IS TENTATIVE.

(FOR KEY SEE REVERSE)

SOURCE:

Richard Street

Appropriate of the

Appraisal of Content: 2.

1. On 29 October 1953 🗲

Tetated that within a short time an organization known as the Cociedad de Amigos de Guatemala would be formed in Mexico. This organization would sponsor meetings for the purpose of informing the Mexican people of the fact that Guatemala is the victim of aggression on the part of imperialistic American companies and is threatened with invasion by another Central American country. SAINZ added that Guatemalan newspapermen and writers would be sent to Mexico to participate in these meetings.

- A three-page manifesto denouncing American aggression in Guatemala has already been prepared. It is to be used to arouse interest in the proposed organization and to gain adherents to it.
- The first meeting of the Sociedad de Amigos de Guatemala was scheduled to take place in Mexico City during the week of 1-7 November 1953.

CIA HISTORICAL REVIEW PROGRAM RELEASE AS SANITIZED

2003

Title:	GENERAL- PBSUCCESS - SPECIFIC-GUATEMALAN PROCUREMENT OF ARMS IN MEXICO
Abstract:	
Pages:	0001
Pub Date:	12/21/1953
Release Date:	4/16/2003
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP
Case Number:	SS-2003-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

•		
VIA:	AIR	

RYBAT

JISPATCH NO. HGG-A-571

Security Sec

TO

Chief, WHD

DFC 21 1953

FROM

Chief of Station, Guatemals

INFO: \(\tau\)

SUBJECT: GENERAL-

PBSUCCESS

SPECIFIC-

Guatemalan Procurement of Arms in Mexico

 The following is a copy of a memorandum, dated 15 December 1953, written by Mr. John C. HILL, Second Secretary of the U.S. Embassy, Guatemala City, and entitled "Mexican-Guatemalan Relations: Arms Procurement and Other Matters." It is forwarded as being of possible interest to Headquarters and the Mexico mission.

"An informant told me today, on the basis of a report from a source he states he has in the national palace, that the Guate-malan Government had recently learned that the Mexican authorities had uncovered and stopped the shipment of 2,000 light automatic appears which the Guatemalans had quietly obtained in a Mexican factory.

"As an alternative, the informant said, the Guatemalan government had some sort of deal under consideration by which arms could be obtained from the Mexican Governor of the State of Chiapas, whiles on the Guatemalan frontier. Colonel Rodolfo SANCHEZ, brother of the Guatemalan Defense Minister, was leaving shortly to conclude a gotiations.

"President ARBENZ, the informant added, had received a confidential report from Roberto ALVARADO Fuentes, Guatemalan Ambassador in Mexico, that the Mexican Foreign Minister had given him to understand that the Mexican Government repudiated Communism and could not give any kind of support to any regime which had such tendencies or fomented them. Ambassador ALVARADO Fuentes had given it as his opinion that the Guatemalan Government was being conspired against in Mexico also, especially in the "bought press.

2. The source of the above information was not given.

Clara M. Heage)

18 December 1953

CMH/cmh
Distribution:
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1-[]
1-Files

FORM NO. 51-28 A

CONFIDENTIAL Security Information 7

Title:	GENERAL- OPERATIONAL - SPECIFIC - MEXICAN-GUATEMALAN ARMS TRAFFIC.
Abstract:	
Pages:	0002
Pub Date:	12/23/1953
Release Date:	4/16/2003
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP
Case Number:	SS-2003-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

AL	HISTORICAL REVIEW PROGRAM
	RELEASE AS SANITIZED

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Air Pouch (Specify Air or Sea Pouch) RYBAT #21-PBSUCCESS Chief of Station, Guatemala TO 23 December 1953 DATE INFO: Washington FROM Operational SUBJECT Mexican-Guatemalan Arms Traffic.

HGG-A-543, 7 December 1953

 a) On or about 10 December 1953. citizen and known local "coyote" who has figured in unsuccessful Mexican-Guatemelan arms deals in the past year, informed LIBETHENITE-4 that he was attempting to procure the below listed ammunition, weapons, and automobiles for the Guatemalan government. furnished source with the list which was written in his bum handwriting. He asked for source's recommendations for the procurement of the munitions.

> "200,000-cal. .50 missiles" (.50 caliber ammunition). 100-bombs, 200 lbs. 100-bombs, 100 lbs. 9-F.P. (complete?) (These two items, according to source, represent SHAMOSH's desire to procure cortain type automobiles.)

1-two seater, Morteros 81, (81mm morters) Morteres 60, (60mm mortars) Bazukas, small and armo, (2.36" bazookas and ammunition) Ammo, 30s, (caliber .30 armunition, amount not specified). Other available equip."

- b) Source told [Ithat he knew of no place in Mexico where such supplies, the automobiles excepted, could be procured.
- 2. a) The Office of the Military Attache has not received any information indicating that L Gor other persons are attempting to procure munitions through the usual legal or illegal channels. Similarly, no reports have been received from other sources indicating that attempts to procure



Reference



Mexican arms and ammunition are currently in progress.

- b) The same office further informs that <u>any</u> arms export permits must, under existing Mexican regulations, be personally signed by the president, thus effectively throttling arms exports from Mexico to any country. Arms imports to Mexico must be authorized by the chiefs of Industria Militar, so it would appear that trans-shipments through Mexico—necessitating an export permit—are also effectively throttled.
- 4. It is pointed out that the appearance of Mexican manufactured arms in the recent uprising in Cuba embarrassed the RUIZ Cortines government and resulted in closer federal supervision of arms imports and exports. This appears to be fact, although it is quite certain that the arms that appeared in Cuba were some of those sold by officials of the ALEMAN administration in late 1952.
- 5. On the basis of available information, it would appear that it would be difficult to procure from Mexico, either legally or illegally, arms for Guatemala. However, will be alert for any leads regarding the possibility of arms smuggiing from Mexico into Guatemala.

Frederick K. Gollaher

FKG/cart

co: 3 - Washington

1 - Guatemala City

2 - Files

SEERET '

23 December 1953 Page 2

Title:	GENERAL- PBSUCCESS - SPECIFIC- GUATEMALAN PROCUREMENT OF MEXICAN ARMS
Abstract:	
Pages:	0002
Pub Date:	12/28/1953
Release Date:	4/16/2003
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP
Case Number:	SS-2003-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

CIA HISTORICAL REVIEW PROGRAM **RELEASE AS SANITIZED**

Air Pouch (Specify Air or Sea Pough) RYBAT 28 December 1953 Chief of Mission, Guatemala DATE TO TROM PRSUCCESS Guatemalan Procurement of Mexican Arms

HGG-A-571, 21 December 1953;

has had no recent indication of Guatemalan attempts to procure "2,000 light automatic weapons" (or other weapons) as reported in the first reference.

71349, 23 December 1953

- 2. a) The "2,000 light automatic weapons" referred to would necessarily be 7mm Mendoza light machine guns (actually automatic rifles) since no other automatic weapon of this type has been manufactured in Mexico.
- b) Industria Militar, the munitions manufacturing branch of the Mexican Armed Forces, ceased producing Mendoza light machine guns during the first half of 1952. Almost all of these weapons manufactured remain with the scattered units of the Mexican Army.
- c) The Office of the Military Attache states that it is doubtful that 2,000 such weapons are in existence. That office further states that if 2,000 Mendoza light machine gums were manufactured by Industria Militar, then the figure 2,000 probably represents the total or very near the total of such weapons produced by Industria Militar.
- d) The Mexican Army, according to the Military Attache, is presently attempting to procure 50 Thompson sub-machine guns from the U.S. This would serve to indicate no surplus of automatic weapons in the Mexican Army.
- 3. With reference to the reported pending attempt by Guatemala to obtain Mexican weapons through the governor of the state of Chiapas, it would appear from the information presently available to



References



that such arms would necessarily be:

- a) Small amounts of discarded surplus items such as 7mm Mauser type rifles of Mexican manufacture; and/or
- b) Weapons of foreign manufacture transshipped through Mexican ports. In view of the information reported in the second reference, the possibility of transshipment does not appear to be great.
- 4. will continue to be alert for any indications of Guatemalan attempts to purchase arms and assumition. Any further leads in this respect will be appreciated.

Frederick K. Gollaher

FKG/cav

cc: 3 - Washington

1 - Guatemala

2 - Files

1 extra copy attached for LINCOLN



7-1354 28 Dec.1953 Page 2

Title:	CABLE FROM LINCOLN COMMENTING ON CALLIGERIS' MEXICO TRIP AND MISSION
Abstract:	
Pages:	0003
Pub Date:	2/1/1954
Release Date:	5/16/1997
Keywords:	COUP GUATEMALA 1954 GUAT III PBSUCCESS SHERWOOD TAPES
Case Number:	CSI-1997-00018
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

MTE & 1 FEB 54

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ID : DIRFO

DIRECTOR

CIA HISTORICAL REVIEW PROGRAM

RELEASE AS SANITIZED

ACTION:

.FROM :

LINCOLN
WH (1-2)

1996

INFO :

DCI (3), D/DCI (4), DD/P (L)(5)

LING 331 (18.14238)

12202 1 FEB 54

OPERATIONAL IMMEDIATE

SLINC

PRECEDENCE

TO: DIR

RE: A. DIR 36529 (OUT 67332)

.. B. LINC 325 (IN 14167)

C. "DIR 36526(OUT 67320)

ATTN: DLWBAR

- 1. WITH REGARD TO MEXICO TRIP, CALLIGERIS MAJOR WORRY WAS
 THAT ELEMENTS OPPOSED TO HIM IN WSHOOFS MIGHT USE TRIP AS PRETEXT
 TO DEMAND WSHOOFS GOVT EXPEL HIS MENAAND HIM. USE OF TAPES WOULD
 LEAVE HIM PLAUSIBLE DENIAL TO SUPPORT WSHOOFS GOVT POSITION, IF
 NECESSARY PERSONAL APPEARANCE WOULD NOT. SEFORE MAKING PERSONAL
 APPEARANCE, CALLIGERIS WANTED BE SURE TSHOOFS GOVT WOULD APPROVE.
 CALLIGERIS LESS CONCERNED ABOUT KMFLUSH. PRIMARILY WISHED AVOID
 BYPASSING.
 - 2. LINC SHARED CALLIGERIS CONCERN OVER CONTINUED AVAILABILITY OF WISHOOFS AS OPS BASE. CALLIGERIS SUGGESTED "GROUP"
 HAVE ODACID IN WISHOOFS EXPLORE WISHOOFS GOVT ATTITUDE, WHICH LINC
 DISAPPROVED. LINC SAW NO ALTERNATIVE BUT HAVE CALLIGERIS ASCERTAIN POSITION PERSONALLY. CALLIGERIS WISHED COORDINATE WITH

CONTROVERSON

IT IS FORBIDDEN TO MAKE A COPY OF THIS MESSAGE

Copy No.

6112-321

1 FEB 54 LINC 331 (IN 14238) PAGE -2-

KATFLUSH BY PHONING IN PEPRIME, WHO WOULD PASS MESSAGE TO

LING FELT IF CALLIGERIS WENT WSHOOFS, COULD THEN ALSO EXPEDITIOUSLY GO KMFLUSH.

- 3. FLIGHT LEAVES HERE 1145, ARRIVES HAVA 1300, MEXICO CITY 1810.
- H. IN VIEW IMPORTANCE CALLIGERIS AND MISSION, LINCOLN WISHER
- A. IF PERSUASION SUCCESSFUL, CALLIGERIS TO BE ESCORTED BY CONNIFF TO VICINITY LOCAL MEXICAN TOURIST COMMISSION. APPLIES FOR TOURIST CARD WITH PRESENT DOCUMENTATION. IF QUESTIONED AND/OR COUNIFF TAKES ACTION.
- B. PRIOR DEPARTING, CALLIGERIS PHONES
 IN MEXICO CITY TO MEET HIM AND ARRANGE LODGING.
- C. CUTSIDE AIRPORT, CONNIFF INTRODUCES MATTHEW H.
 ONTRICH TO CALLIGERIS AS "JUAN", WHO WILL TAIL HIM AND PROVIDE
 FAST EMERGENCY COMMUNICATION TO GROUP.
 - . D. IN TRANSITING HAVANA, ONTRICH NOTIFIES KUBARK
 IN CASE OF EMERGENCY, SUCH AS DETENTION FOR QUESTIONING.
- E. IN MEXICO, ONTRICH GOES TO HOTEL AND NOTIFIES CALL
 CALLIGERIS.
- F. CALLIGERIS ENTERS MEXICO UNDER FALSE DOCUMENTS AND
 HIS MISSION REQUIRES HIS REVELATION OF TRUE NAME. IF QUESTION
 OF FALSE DOCUMENTS AND ILLEGAL ENTRY RAISED, ONTRICH CONTACTS

S F O D F T

OCONET.

1 FEB 54

. LINC 331 (IN 14238)

PAGE -3-

- G. "AT PRESS CONFERENCE, CALLIGERIS NOT TO REVEAL HIS LOCATION PRIOR TO HAVANA.
- H. CALLIGERIS RETURNS NEW ORLEANS. HQS ARRANGES WITH
 APPROPRIATE ODYOKE AUTHORITIES FOR CALLIGERIS RE-ENTRY, SINCE
 CALLIGERIS HAS BEEN FORCED LABEL HIS DOCUMENTATION FALSE IN
 MEXICO. PROTECTION OF LAAND N AGAINST PRESS.
 - CEIVE FURTHER STUDY TO MINIMIZE REVELATION HIS "GROUP" CONTACTS
 BY PRESS.
 - ESSENTIAL BE PREPARED IMPLEMENT THEM.
 - FOR ONTRICH AND ALERT TO HIS CALLING.
 - 7. FLS ADVISE SCONEST.

END OF MESSAGE

TREATED AS PESUCCESS.

Title:	CABLE FROM LINCOLN REPORTING AN ANTI-RED CONFERENCE TO BE HELD IN MEXICO CITY		
Abstract:			
Pages:	0002		
Pub Date:	2/3/1954		
Release Date:	5/16/1997		
Keywords:	COUP GUATEMALA 1954 GUAT III PBSUCCESS SHERWOOD TAPES		
Case Number:	CSI-1997-00018		
Copyright:	0		
Release Decision:	RIPPUB		
Classification:	U		

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BESTER BELLEVIE
BANCHINA PARTHUMANNESSON

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TO : DIRECTOR

FROM : LINCOLN

CIA HISTORICAL REVIEW PROGRAM RELEASE AS SANITIZED

mon: ₩H (1-2)*

INFO : DC1 (3), D/DC1 (4), DD/P (L) (5)

File

LINC 352 (IN 14939)

0045Z 3 FEB 54

OPERATIONAL IMMEDIATE

PRECEDENCE

TO: DIR

. : CITE: SLINC

RYBAT PBSUCCESS

BE:

LEARNS OF HEMISPHERE-WIDE ANTI-RED CONFERENCE TO BE HELD MEXICO

"CITY 5-7 FEB." ASSUME THIS 1 KUGOWN OP. IS INFO CORRECT?

2. IF SO, PROPOSE SEND

MEXICO CITY (THUS

BROADENING LIONIZER-DIVERSIONARY PURPOSE). ESTABLISHMENT OF COMMITTEE TO BE MAJOR FINAL ACTION TAKEN BY CONFERENCE.

- 3. IF FOREGOING CORRECT AND PROPOSAL APPROVED DESIRE ARRANGE, IF POSSIBLE:
 - A. HALF TO FULL HOUR SPEAKING TIME
 - 8. INTRODUCTION RESOLUTION
 - C. FORMATION COMMITTEE UNDER CONTROLLED CONDITIONS.
- 4. ELMO R. LANGTRY SCHEDULED DEPART 1615 FEB 3 FOR MEXICO K

OUT SECRET

IT IS FORBIDDEN TO MAKE A COPY OF THIS MESSAGE

Copy No.

LINC-SEZ

3 FEB 54 LINC 352 (IN 14939)

VIA

, PER APPROVAL GALBOND RE PBSUCCESS/

KUGOWN OPS. WOULD BE ON HAND ASSIST ABOVE ARRANGEMENTS.

5. ADVISE SOONEST HOS COMMENTS OR APPROVAL VIEW
POSSIBLE IMPORTANCE ABOVE AND TIME FACTOR INVOLVED.

NOT APPROACHED SO FAR. SPEECH THEMES WOULD BE CABLED FOR

END OF MESSAGE

*CABLE SECRETARIAT COLMENT:

APPROVAL UPON RECEIPT HOS REPLY.

TEMPO COPY OF THIS MESSAGE ISSUED TO MR. , WH, EXT 执执3, AT 2130, 2 FEB 54。

SECRET

Title:	MEXICAN LEFTIST HELP FOR ARBENZ REGIME (W/ATTACHMENT)			
Abstract:				
Pages:	0003			
Pub Date:	5/25/1954			
Release Date:	4/15/2003			
Keywords:	PBSUCCESS GUATEMALA 1954 COUP ASSASSINATION PLANNING GUATEMALA 54 COUP			
Case Number:	SS-2003-00002			
Copyright:	0			
Release Decision:	RIPPUB			
Classification:	U			

CIA HISTORICAL REVIEW PROGRAM CONFIDENTIAL



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-	Source Cryptonym:	See below.	•	References:				
	Source, Operation	al Data, and Co	mments:		140			
		Matika.	*	· ·			,	
	Subjects	Mexican Leftic	st Help i	for Arbens Re	egine		Ĺ	
		,			-			
	<u>Date</u> :	25 June 1954					i	
	Source:	This report is	s a synti	nesis of the	views of	٠.	and	

30 JUN 1954

Classification



FORM NO. 51-59

Subject:

Maxican Leftist Help for

Arbens Regime

Report No: **[]** .728

Date of Information: 18-23 June 1954

Place Acquired:

Mexico City

Date Acquired:

18-23 June 1954

Evaluation:

Date of Report:

25 June 1954

Source:

Various Marxists

1. Ever since the invasion of Guatemala by the rebel army of Colonel Carlos CASTILLO Armss, rumors have been circulating around Mexico City of Mexican Leftist elements sending aid to the ARESNIZ regime and of the probable formation of a "Volunteer Brigade" to fight on the side of Golonel ARBENZ. Such rumors, while making good newspaper stories, are probably no more than just that. Of the Leftist elements in the Republic of Mexico only two political parties, the "Partido Popular" and the "Partido Comunista Mexicana", would be sufficiently strong to send any such aid to the ARBENZ regime. The only other Leftist parties worth mentioning in this respect would be the "Partido Obrero-Composino Mexicano" and the "Union General de Obreros y Cempesinos Mexicanos". It is highly doubtful whether either of these parties would attempt to do snything in this direction without the direct support of either the Partido Popular (PP) or the Partido Commista Mexicana (PCM). Certainly, if they should attempt such a step alone, they would get absolutely no where. Thus, the only two parties worth considering at the moment are the PF and the PCM. As the following paragraphs will show, it is extremely unlikely that either of these parties vill attempt to form a "Volunteer Brigade" in order to fight for the ARBINE regime. On the other hand, it is shost a certainty that both the PP and the PCM will mount strong propaganda compaigns attacking the United States and praising the ARBENZ regime.

2. The position of the PP has already been made quite clear. It is the opinion of Vicente LOMBARDO Toledeno that the ARBENZ regime has all the manpower it needs, and that what it needs very badly is vespons. Since neither the PP nor the Confederacion de Trabajadores de America Letina (CTAL) is in a position to furnish area to the ARBENZ regime, it is almost a certainty that no direct help will come from these organizations. As a matter of fact, LOMBARDO has categorically come out against the sending of any "Volunteer Brigade". Instead, LONBARDO, in conjunction with his PP and CTAL leaders, has decided to mobilise all efforts in an all-out propaganda campaign. This campaign is to be violently anti-U.S. and pro-ARBENZ. As this campaign will be controlled and master-minded by LOMBARDO, it might very well prove to be effective in some quarters.

Classification



Certainly, money will not be lacking, as it will be furnished through World Federation of Trade Union (WFTU) channels, and PP and CTAL membership is sufficiently strong to ensure some success. The PP will handle this propaganda campaign inside Mexico, while the CTAL will guide it throughout the rest of Latin America. Definite plans to this effect have already been convened to discuss this matter fully.

The PCM, under Dionisio ENCINA, presents a different picture. One of its top leaders, Manuel TERRAZAS, came out with a personal statement that the PCM would try to form a "Volunteer Brigade" and send it to Guatemala. However, shortly after he made this statement the PCM Political Commission convened (21 June 1954) and severly reprimended TERRAZAS for "coming out with such a premature statement". As of this date, it is not yet known what the Political Commission has decided to do, if anything. However, the indications are that it will not attempt to form a "Volunteer Brigade" at present. However. even if it should form such a "Volunteer Brigade", it doubted that it could muster more than a few hundred men at the very most. As the PCM has no financial means to speak of, it is doubtful if it could scrape enough money together to send such a "Brigade" to the Gustemalan border. It is furthermore very doubtful whether or not the Mexican Government would allow them to cross the frontier into Guatemala. Thus, it appears very unlikely that even the PCM will attempt to form a "Wolumteer Brigade" to send to the aid of the ARBENZ regime. However, it is very probable that the Political Commission will decide to embark the PCM on an all-out anti-U.S. and pro-ARBENZ propaganda campaign. This will not be a novelty for the PCM, however, as it has been harping on "Yankee imperialism" for years.

4. The present situation in Mexico with respect to Leftist support of the ARBENZ regime can be summed up as follows:

First, it is highly unlikely that Leftist elements will try to form a "Volunteer Brigade". Second, a concentrated and somewhat violent propaganda campaign can be expected in very short order. This propaganda campaign will be directed against the United States and will be strongly in favor of the ARBENZ regime. Among other things, it will very probably accuse the United States of:

a) Planning and directing the invasion of Guatemala by the rebels.

b) Of financing the rebels and of furnishing them with arms.
 c) Of direct intervention by the United Fruit Company, and its furnishing American technicians and pilots to the rebels.

d) Agitation for the United States to be accused of indirect intervention and aggression in Guatemala before the United Nations Organization.

25 June Page 2

CONFIDENTIAL

Title:	MEXICAN SOVEREIGNTY MORTON SOBELL LUIS SANCHEZ PONTON ALFRED STERN
Abstract:	
Pages:	0001
Pub Date:	4/26/1957
Release Date:	11/10/1981
Keywords:	JULIUS ETHEL ROSENBERG MORTON SOBELL EXCELSIOR ALCATRAZ PRISON ALFRED STERN JACK SOBLE LUIS SANCHEZ PONTON MARTHA STERN
Case Number:	F-1975-00144
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

Correct Morton SORRED Portons S Line SANCHEZ Portons S Alfred K. STERLI COLON REQUESTED: Pass to Officers interested in Alfred KASTKRI Case There is attached a copy of an article from Excelsion, leading Mexican news peper which was written by Lui XSARCHEZ Ponton, Nextgen levyer who recently yen to the U.S.A. (after some difficulty in getting a U.S. vita) for the purpose of attempting to aid Morton SOKELL in getting released from Alcotraz Prison. SOKELL vas sentenced to thirty (30) years in the ROSHERERG case. 2. SORELL was taken to the U.S. border in 1951 by "contacts" of the local FRI representatives; without an official expulsion order by the Mexican Coverment The attached is believed of interest because of: The attack on the FBI. Present considerations of means of getting Alfred and Martha VILEN int he U.S.A. for trial in the Jack SONB case. stribution

Title:	TRAVEL TO MEXICO BY FAMILY OF MORTON SOBELL		
Abstract:			
Pages:	0002		
Pub Date:	7/15/1958		
Release Date:	11/10/1981		
Keywords:	SOBELL MORTON MALTZ ALBERT MEXICO CITY ROSENBERG		
Case Number:	F-1975-00144		
Copyright:	0		
Release Decision:	RIPPUB		
Classification:	U		

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R 151934Z

GR 193

TO: DIRECTOR FSI

FM: DIRECTOR CIA

OUT 50332

FROM

DATE OF INFO: 7-12 JULY 1958

SUBJECT : TRAVEL TO MEXICO BY FAMILY OF MONTH SCREELL

1. OH 7 JULY 1958 A USUALLY RELIABLE SOURCE REPORTED THAT ROSE SOMELL, MOTHER OF MORTON SOMELL (WHO WAS IMPRISONED IN COMMENTALITY THE THE ROSENBERG CASE), PLANMED TO ARRIVE IN A PERCON CASE OF THE MEAR PUTURE.

BI 24

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કેન્દ્રમાં મેના માર્ગિયાના સ્પેત્રી કહેવા મોર્ગિયાના સામાં પ્રાથમિક મોર્ગિયાના કરતા કરવા કરવા કરવા કરી કે ફોર્મ ત્રામાં માર્ગિયાના સ્પેત્રી કહેવા માર્ગિયાના સામાં માર્ગિયાના કરતા કરવા કરવા કરવા કરવા કરવા કરતા કરતા કરતા કરત

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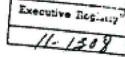
- WIFE OF MORTON PLANNED TO ARRIVE IN MEXICO IN MID-JULY.
- 3. ANOTHER USUALLY RELIABLE SOURCE HAS REPORTED THAT ALBERT HALTZ, AMERICAN COMMUNIST WRITER, INVITED HELEN SOBELL TO STAY AT THE MALTZ HOME IN MEXICO CITY WHEN SHE ARRIVES. (HEADQUARTERS COMMENT: SEE OUR TELETYPE OF 10 JULY 1958 WHICH REPORTED THE PLANS OF THE MALTZ FAMILY TO LEAVE MEXICO CITY ON 15 JULY FOR A VISIT TO THE U. S.)
 - 4. THE ABOVE INFORMATION, WHICH WAS OBTAINED FROM HIGHLY SENSITIVE SOURCES, SHOULD NOT BE DISSEMINATED FURTHER.

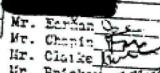
DISTRIBUTION: LEGAL ATTACHE

TOT: 15/1939Z

TOR: 15/1910Z

Title:	LETTER TO THE PRESIDENT FROM ALLEN W. DULLES RE COMMUNIST THREAT IN MEXICO DUE		
Abstract:			
Pages:	0002		
Pub Date:	2/12/1959		
Release Date:	2/13/2001		
Keywords:	DULLES PAPERS DULLES ALLEN DULLES COLLECTION		
Case Number:	F-1985-00856		
Copyright:	0		
Release Decision:	RIPPUB		
Classification:	U		







CENTRAL INTELLIGENCE AGENCY

WASHINGTON 25, D. C.

OFFICE OF THE DIRECTOR

Hr. Clarke we her. Brickey MW

12 FEB 1959

The President The White House

My dear Mr. President:

The Communist threat in Mexico stems from two main elements: The Soviet and Satellite diplomatic missions and native Marxism, coupled with extreme nationalism.

The Soviet Embassy has a staff of fifty-three, far in excess of the number necessary for handling normal diplomatic relations between the two countries.

(B(2)

Soviet intelligence operations based on Mexico are being directed into the United States

the Caribbean are primarily of a political action nature.

Soviet agents are active in several Latin American countries, some enjoying positions of considerable importance.

Although the chief functions of the Soviet Embassy are in intelligence, guidance of Communist Parties, and subversive work, some cultural, commercial and general propaganda activities are also carried on.

The Czechoslovakian Legation in Mexico is generally engaged in promoting commerce in Mexico and in nearby countries,

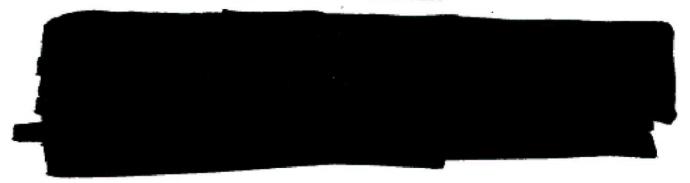
The Polish Legation is primarily engaged in cultural activities.

Approved for Release Date CICT 1990

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It has a staff of twelve,

(わG) けい The Markist movement in Mexico is composed mainly of the Communist Party of Mexico and the Popular Party. While neither is strong mamerically or politically, both are capeble of agitation and serve as rallying points for native leftists and ultra nationalists, and as a pool for Soviet recruitment. A number of Communist front organizations also exist, the most important being the Confederation of Labor of Latin America (CTAL), the Latin American branch of the World Federation of Trade Unions led by Vicente Lombardo Toledano.



Yours respectfully,

SIGNED

Allen W. Dulles Director

Enclose (transmitted to Sen Goodparter dtd 16 Feb 59 attaching this letter)

WHILL BER

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Title:	GENERAL - 1. KHRUSHCHEV TO VISIT CUBA AND POSSIBLY MEXICO
Abstract:	
Pages:	0001
Pub Date:	9/9/1960
Release Date:	6/2/1998
Keywords:	BAY OF PIGS CUBA CASTRO FIDEL
Case Number:	CSI-1998-00005
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

CIA HISTORICAL REVIEW PROGRAM RELEASE AS SANITIZED 1997

GENERAL

1. Khrushchev to Visit Cuba and Possibly Mexico: Khrushchev will pay an "official visit" to Cuba after his trip to New York for the opening of the UN General Assembly on 20 September, according to

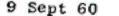
Khrushchev's presence in Cuba might prompt anti-Communist, anti-Castro demonstrations in Havana and other Cuban cities. He may use the occasion to announce the conclusion of a Soviet-Cuban arms deal and the extension of further credits to Cuba as a demonstration of Soviet support for the Castro regime.

A Soviet merchant ship, the Ilya Mechnikov, arrived in Cuba on 8 September with Moscow's first major arms delivery to the Castro regime. The ship loaded more than 4,000 tons of "varied" cargo at Nikolaev, the Soviet Black Sea arms-export port, and is now unloading in East Havana under strict security precautions. Trucks lined up at Cabana Fortress are to remove the cargo to Las Villas Province in central Cuba.

The Soviet Embassy official also stated that Khrushchev "might stop off in Mexico," but that he has no plans to visit Argentina or any other South American country. There have been reports that both the Soviet ambassador in Buenos Aires and First Deputy Chairman Kosygin, who headed the USSR's delegation to the Argentine sesquicentennial celebrations in May, have tried to arrange an exchange of visits between Khrushchev and Argentine President Frondizi.

According to a Mexican radiobroadcast of 7 September, the Soviet ambassador to Mexico, who returned from a month's vacation in the USSR the day before, has announced he will call a press conference shortly "to discuss the trip which Khrushchev plans to make to Mexico."

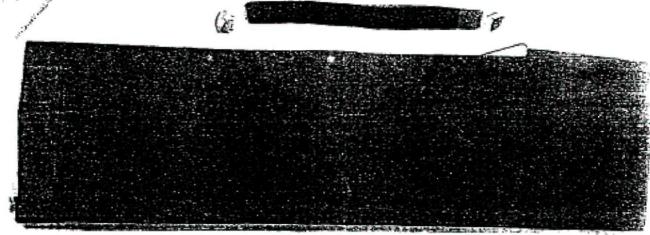
Official Mexican reception of Khrushchev would probably be correct but cool. The Lopez Mateos government had indicated that Khrushchev's presence at the mid-September celebrations of the 150th anniversary of Mexican independence would be unwelcome, by requesting that delegations be headed by officials of no higher rank than vice president.





Title:	LATIN AMERICA - 6. SEVEN COUNTRIES ABSTAIN ON CUBAN RESOLUTION BEFORE COMMITTE		
Abstract:			
Pages:	0001		
Pub Date:	9/15/1960		
Release Date:	6/2/1998		
Keywords:	BAY OF PIGS CUBA CASTRO FIDEL		
Case Number:	CSI-1998-00005		
Copyright:	0		
Release Decision:	RIPPUB		
Classification:	U		

6.



LATIN AMERICA

Seven Countries Abstain on Cuban Resolution Before Committee of 21: A grandiose Cuban proposal on economic development presented to the just-concluded third meeting of the inter-American Committee of 21 in Bogota was defeated by 12 votes to 1 but drew abstentions from Argentina, Bolivia, Brazil, El Salvador, Haiti, Mexico, and Venezuela. The proposal called for the creation of a \$30 billion development fund for Latin America to commentically from the United States. The US delegation attributes the abstentions--except for those of Argentina and Brazil--to substantial pressure from pro-Cuban elements on the respective governments. Argentina's abstention seemed "inexcusable," while Brazil's was due to the "noted softheadedness of its chief delegate, Augusto Frederico Schmidt," according to the US Embassy in Bogota.

Argentine delegate Musich's explanation of his abstention was that Argentina could never join in an intervention against any country in the hemisphere; in other words, he may have felt that a vote against the Cuban resolution might be considered joining with the US to bring pressure on Cuba. While Argentina might have decided that joining the other major Latin American nations would prevent its being further isolated from influence in the increasingly intertwined problems of Cuba and economic development, Musich's explanation contradicts Argentina's prior criticism of Cuba and its strong support of US positions in the recent OAS meetings in San Jose.

The final Act of Bogota, which outlines economic and social development programs for Latin America, was signed on 13 September.

15 Sept 60

CURRENT INTELLIGENCE DIGEST

Page 5

Title:	EXPRESSION OF OPPOSITION TO VISIT OF PRESIDENT KENNEDY TO MEXICO, JUNE 1962			
Abstract:				
Pages:	0001			
Pub Date:	5/11/1962			
Release Date:	3/30/2001			
Keywords:	MEXICO KENNEDY VISIT CLANDESTINE MEXICO CITY OPPOSITION PAMPHLET			
Case Number:	EO-1999-00043			
Copyright:	0			
Release Decision:	RIPPUB			
Classification:	U			

Title:	MEXICAN PRESIDENT'S ACTION AGAINST STRIKE ACTIVITIES OF COMMUNIST STUDENTS AT N			
Abstract:				
Pages:	0002			
Pub Date:	5/16/1962			
Release Date:	3/30/2001			
Keywords:	MEXICO COMMUNIST MARXIST ACTIVITY PRESIDENT STRIKE MEXICO CITY MEXICAN STUDENTS UNAM KENNEDY VISIT			
Case Number:	EO-1999-00043			
Copyright:	0			
Release Decision:	RIPPUB			
Classification:	U			

ELEGRAM IN ORMATION REPORT CENTRAL INTELLIGENCE AGENCY COUNTRY MEXICO SUBJECT MEXICAN PRESIDENT'S ACTION AGAINST DATE DISTR. 16 MAY 1962-STRIKE ACTIVITIES OF COMMUNIST STUDENTS AT NATIONAL AUTONOMOUS UNIVERSITY OF MEXICO RETAIN OR DECTROS THIS IS UNEYALUATED INFORMATION. SOURCE GRADINGS ARE DEFINITIVE, APPRAISAL OF CONTENT E0 12958 3,4(b)(1)>25Yr COMMENT: 1. MARXIST STUDENTS, WITH THE AIM OF CREATING AN UNHEALTHY ATMOSPHERE FOR THE VISIT OF PRESIDENT KENNEDY TO MEXICO ON 29 JUNE 1962, WERE ATTEMPTING TO TURN A CURRENT STRIKE AGAINST THE RECTOR AND FACULTY BY THE STUDENTS OF THE SCHOOLS OF ECONOMY, POLITICAL SCIENCE, AND LAW OF THE UNIVERSIDAD NACIONAL AUTONOMA DE MEXICO (UNAM - NATIONAL AUTONOMOUS UNIVERSITY OF MEXICO) INTO A POLITICAL ISSUE.) 2. ADOLFO LOPEZ MATEOS, PRESIDENT OF MEXICO, WAS "FURIOUS" ABOUT THE COMMUNIST STUDENT 183 ACTIVITIES AT THE UNAM. THE RESULT WAS CHAVEZ! STATEMENT IN THE NEWSPAPERS ON 15 MAY 1962. COMMENT: IN HIS

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MANDATORY REVIEW
CASE # NLK- 98-7
DOCUMENT # 3

APPROVED FOR RELEASE **
DATE: MAR 2001

Title:	COMMUNIST PLANS TO PROTEST THE VISIT OF PRESIDENT KENNEDY
Abstract:	
Pages:	0003
Pub Date:	5/18/1962
Release Date:	3/30/2001
Keywords:	MEXICO COMMUNIST KENNEDY VISIT MEXICO CITY PROTEST PPS PCM
Case Number:	EO-1999-00043
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

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	CENTRAL INTELLIGENCE AGENCY
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COUNTRY MEXICO	to the state of th
OF PRESIDENT KENNED	
FUIR IS LINEVALUATED INFORMAT	TION, SOURCE GRADINGS ARE DEFINITIVE. APPRAISAL OF CONTENT IS. E0 12858 3.4(b)(1)>25Yrs — (S)

- THE POLITICAL COMMISSION OF THE PARTIDO COMUNISTA MEXICANOED 12858 3.4(b)(1 (PCM - MEXICAN COMMUNIST PARTY) PLAN OF ACTIVITY WHOSE AIM IS TO DEMONSTRATE THAT THE MEXICAN PEOPLE ARE OPPOSED TO THE PROJECTED VISIT TO MEXICO OF JOHN F KENNEDY, PRESIDENT OF THE UNITED STATES, AND THAT THEY REPUDIATE HIM AS THE "CHIEF SYMBOL OF YANKEE IMPERIALISM." THE PROGRAM INCLUDES THE FOLLOWING ACTIVITIES:
- A MONSTER ANTI-UNITED STATES RALLY TO BE HELD ONE OR TWO DAYS PRECEDING THE ARRIVAL OF PRESIDENT KENNEDY, IN WHICH MEMBERS OF THE FOLLOWING POLITICAL ORGANIZATIONS WILL PARTICIPATE; IN ADDITION TO PCM MEMBERS: PARTIDO POPULAR SOCIALISTA (PPS - POPULAR SOCIALIST PARTY). MARXIST PARTY OF MEXICO: PARTIDO OBRERO

TELEGRAM TELEGRAM INFORMATION REPORT

MANDATORY RE

CASE # NLK-

APPROVED FOR RELEASE DATE MAR 2001

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ME 2

MEXICANO (POCM - WORKERS AND FARMERS PARTY OF MEXICO), SPLINTER PARTY
OF THE PCM; AND MOVIMIENTO DE LIBERACION NACIONAL (MLN - NATIONAL
LIBERATION MOVEMENT), RABIDLY ANTI-UNITED STATES, PRO-CUBA COMMUNIST
FRONT).

- B. THE POLITICAL COMMISSION WILL HAVE THOUSANDS OF STICKERS
 PRINTED IN PROTEST AGAINST THE VISIT, AND THE UNITED STATES. THESE
 WILL BE PASTED ON WALLS AND PUBLIC BUILDINGS.
- C. PARTY CEELS WILL PUBLISH STICKERS AND HANDBILLS AND PAINT WALL SIGNS IN PROTEST.
- THE POLICITCAL COMMISSION WILL OUTLINE COMPLETE DETAILS OF ITS PROTEST PLAN TO LEADERS OF CELLS AND SECTIONS DURING THE WEEK OF 20 MAY. IT HAS ASSURED THAT EVERY POSSIBLE PRECAUTION WILL BE TAKEN TO GUARANTEE THE SAFETY OF ALL PCM MEMBERS WHO PARTICIPATE IN THE PROTEST PROGRAM. PARTY MEMBERS IN THE FEDERAL DISTRICT WILLIES PLAY AN IMPORTANT ROLE IN THESE ACTIVITIES. THE POLITICAL COMMISSION WILL NAME THE PERSONS WHO WILL TAKE CHARGE OF VARIOUS ACTIVITIES. IT WILL ASSIGN A ROUND-THE-CLOCK PARTY SECURITY GUARD TO PROTECT TOP THE HEADQUARTERS OF THE FEDERAL DISTRICT, LONDRES 252-A, FOR SEVERAL DAYS PRECEDING THE ARRIVAL OF PRESIDENT KENNEDY AND DURING HIS WORLD THE POLITICAL CADE COMMENT. STAY IN MEXICO. COMMISSION HAS EVEN CONSIDERED A PLAN FOR TOSSING HARASSMENT DEVICES AS THE OFFICIAL CAR BEARING PRESIDENT KENNEDY DRIVES FROM THE AIRPORT THROUGH THE FEDERAL DISTRICT).

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END OF MESSAGE

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E0 12958 3.4(h)(1)>25Yrs (8)

Title:	COMMUNIST PLAN TO PROTEST THE VISIT OF PRESIDENT KENNEDY
Abstract:	
Pages:	0005
Pub Date:	5/26/1962
Release Date:	3/30/2001
Keywords:	MEXICO COMMUNIST PRESIDENT KENNEDY VISIT MEXICO CITY MLN PROTEST PPS RALLIES
Case Number:	EO-1999-00043
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

<u> </u>	CENTRAL INTE	LLIGENCE AGENCY		
SECRET (When Filled In)	V-12	gandon, si c	mehunt	√V EO 12958 3.4(b)(1)-25
COUNTRY MEXICO	$\overline{\mathcal{L}}$			
SUBJECT COMMUNIST PLAN; TO PRESIDENT KENNEDY DE	STROY -	DATE DIST	R. 26 MAY 1962	****
THIS IS UNEVALUATED INFOR	MATION, SOURCE GRADI	NGS ARE DEFINITIVE, APPRA	ISAL OF CONTENT IS	TENTATIVE.
			EO 12958 3 AUNTO>2	SVre

- 1. NATIONAL LEADERS OF THE PARTIDO COMUNISTA MEXICANO(PCM MEXICAN COMMUNIST PARTY) DISCUSSED WITH LEADERS OF THE PARTIDO POPULAR
 SOCIALIST (PPS POPULAR SOCIALIST PARTY), AND THE MOVIMIENTO DE
 LIBERACION NACIONAL (MLN NATIONAL LIBERATION MOVEMENT), RABIDLY
 ANTI-UNITED STATES, PRO-CUBA COMMUNIST FRONT, ITS PLAN TO HOLD
 A JOINT MASS DEMONSTRATION ONE OR TWO DAYS PRECEDING THE ARRIVAL IN
 MEXICO OF JOHN F.KENNEDY, PRESIDENT OF THE UNITED STATES. DIFFERENCES
 OF OPINION AROSE AMONG LEADERS OF THE THREE GROUPS RELATIVE TO THE PLAN.
- 2. PPS LEADERS AGREED THAT EITHER A JOINT OR SEPARATE PROTEST RALLIES SHOULD BE HELD BY THE THREE GROUPS TO PROMOTE ANTI-U.S. FEELING AMONG THE MEXICAN MASSES. THE PPS OBJECTED TO A JOINT

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CASE # NLK-___19-7___

APPROVED FOR RELEASE DATE: MAR 2001



DEMONSTRATION BECAUSE ALTHOUGH THE PPS WOULD CONTROL THE GREATER MASS OF PERSONS PARTICIPATING IN IT, THE PCM, WITH FEWER PEOPLE UNDER ITS DIRECTION, WOULD TAKE THE CREDIT FOR THE ACTIVITY AND AS A RESULT, GAIN IN PRESTIGE. THE PPS ALSO SAID THAT IT CONTROLS GREATER NUMBERS OF STUDENTS IN THE UNIVERSIDAD NACIONAL AUTONOMA DE MEXICO (UNAM - NATIONAL AUTONOMOUS UNIVERSITY OF MEXICO), THE INSTITUTO POLITECNICO NACIONAL (IPN - NATIONAL POLYTECHNICAL INSTITUTE), AND THE ESCUELA NORMAL SUPERIOR (ENS - SUPERIOR NORMAL SCHOOL) THAN THE PCM. THE PPS AGREED THAT LIGHTINING PROTEST MEETINGS SHOULD BE HELD IN POORER RESIDENTIAL SECTIONS, IN MARKETS, AND OUTSIDE FACTORIES AS WORKERS ARE LEAVING FOR THE DAY, AND THAT PROTEST STICKERS SHOULD BE PASTED ON WALLS, AND WALL SIGNS BE PAINTED.

3. MLN NATIONAL LEADERS IN GENERAL ARE OPPOSED TO THE PROPOSED

JOINT MONSTER RALLY. JORGE L.TAMAYO CASTILLEJOS, PROMINENT MARXIST

INTELLECTUAL, WHO IS A LEADING MEMBER OF THE MLN IN THE FEDERAL

DISTRICT, AND THE FOLLOWING MEMBERS OF THE MLN NATIONAL COMMITTEE

WERE IN FAVOR OF HOLDING IT: HORGE CARRION VILLA, NARCISO BASSOLS
BATALLA, AND ENRIQUE CABRERA COSION

A MEMBER OF THE PPS NATIONAL EXECUTIVE DIRECTORATE.) MLN FEDERAL

DISTRICT LEADERS HAD A DIFFERENCE OF OPINION CONCERNING THE RALLY.

THE FACTION COMPOSED OF FOLLOWERS OF GENERAL LAZARO CARDENAS DEL RIO,

PROMINENT PRO-COMMUNIST FORMER PRESIDENT OF MEXICO AND SECRET HEAD

OF THE MLN, WAS OPPOSED TO PARTICIPATION IN THE RALLY, WHILE THE

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FACTION WHICH SUPPORTS BASSOLS BATALLA EXPRESSED READINESS TO PARTI-CIPATE. HOWEVER, THIS GROUP IS A VERY SMALL MINORITY OF THE

4. GUILLERMO ROUSET BANDA, JOSE REVUELTAS SANCHEZ, AND MARXIST, COMMUNIST, AND LEFTIST STUDENTS FROM THE UNAM. THE IPN. AND THE NORMAL SCHOOL, FAVOR THE JOINT PCM, PPS, AND MLN DEMONSTRATION. IF PLANS FOR THE LATTER FALL THROUGH, THEY ARE DETERMINED TO HOLD THE RALLY BY THEMSELVES. ROUSET IS DETERMINED TO SHOW THAT REVOLUTIONARY ACTIVITIES ARE CARRIED OUT BY EXPELLED LEADERS OF THE PCM, AND NOT BY NATIONAL PARTY LEADERS. HE IS ALSO DETERMINED TO PROVE THAT THE REVOLUTIONARY STUDENT MASSES IN MEXICO ARE FOLLOWERS OF THE EXPELLED PCM LEADERS. ROUSET SAID THE PCM NATIONAL LEADERS ARE DETERMINED TO HOLD THE PROTEST RALLY, WHICH HE DESCRIBED AS A CLASSIC PROVO-CATION, EITHER JOINTLY OR ALONE. HE SAID THE REASON WAS THAT PCM NATIONAL LEADERS ARE ANXIOUS TO CAPITALIZE ON THE RESULTING NATIONAL AND INTERNATIONAL PUBLICITY IN THE EVENT THE DEMONSTRATORS ARE E0 12958 3.4(b)(1)-25Y ATTACKED BY POLICE, WHICH IS ALMOST A CERTAINTY. COMMENT: ROUSET IS ONE OF THE FORMER MEMBERS OF THE PCM FEDERAL DISTRICT COMMITTEE WHO WERE EXPELLED FROM THE PARTY IN LATE APRIL. REVUELTAS. A FORMER MEMBER OF THE PCM, AND LATER OF THE PARTIDO OBRERO CAMPESINO MEXICANO (POCM - WORKERS AND FARMERS! PARTY OF MEXICO), IS NOW LEADER OF THE ESPARTACO GROUP, AN INDEPENDENT COMMUNIST GROUP WHICH HE

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ORGANIZED.)

- 5. IN LINE WITH ITS CAMPAIGN OF PRECAUTION TO PREVENT PCM
 MEMBERS FROM BEING ARRESTED AND DETAINED BY POLICE PRIOR TO OR DURING
 THE VISIT OF PRESIDENT KENNEDY, POLITICAL COMMISSION MEMBERS HAVE
 ISSUED THE FOLLOWING INSTRUCTIONS TO PARTY MEMBERS:
- A. LEADING MEMBERS OF THE PARTY, INCLUDING HEADS OF CELLS, MUST CHANGE THEIR PLACES OF RESIDENCE. IF UNABLE TO MOVE THEIR FAMILIES, THEY MUST DISAPPEAR FOR THE TIME BEING. THEY MUST ABSTAIN FROM ANY KIND OF CONTACT OR COMMUNICATION WITH FAMILIES. THEY WILL COMMUNICATE WITH FAMILIES ONLY IN CASES OF EXTREME EMERGENCY, AND IN SUCH CASES, ONLY THROUGH CONTACTS ASSIGNED BY THE PARTY.
- B. LEADING PARTY MEMBERS WHOSE NAMES AND RECORDS ARE IN POLICE FILES SHOULD ADOPT ALIASES AND ADVISE THE POLITICAL COMMISSION OF THESE ALIASES.
- C. AN IRON-CLAD DISCIPLINE MUST BE ADOPTED BY ALL PARTY MEMBERS,
 AND METICULOUS PUNCTUALITY MUST BE OBSERVED BY THEM IN ATTENDING
 MEETINGS AND PARTICIPATING IN ACTIVITIES ORDERED BY THE POLITICAL
 COMMISSION. ON THE DISCIPLINE NOW OBSERVED BY PCM MEMBERS WILL
 DEPEND FUTURE ASSIGNMENTS AND MISSIONS.
- D. CELLS WILL HOLD MEETINGS AT NEW PLACES, AND WILL ADOPT ALL POSSIBLE SECURITY PRECAUTIONS TO EVADE POLICE SURVEILLANCE.
- E. ALL DECISIONS REACHED AT CELL MEETINGS WILL BE BINDING UPON CELL MEMBERS.



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F. THE PARTY WILL HOLD PRACTICE DRILLS TO PREPARE MEMBERS IN THE EVENT IT BECOMES NECESSARY FOR THE PCM TO GO UNDERGROUND.

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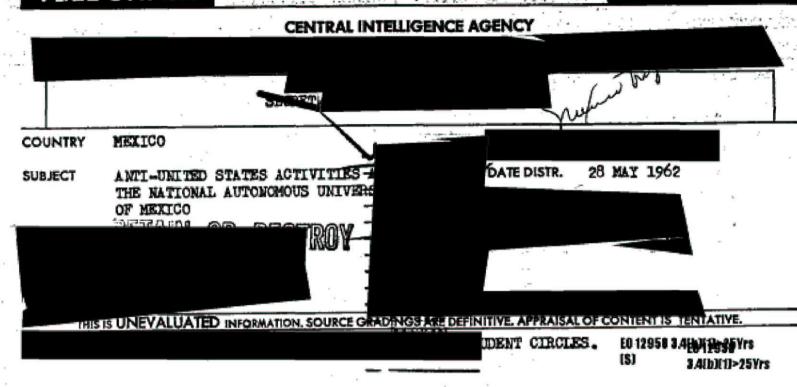
END OF MESSAGE

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Title:	ANTI-UNITED STATES ACTIVITIES AT THE NATIONAL AUTONOMOUS UNIVERSITY OF MEXICO
Abstract:	
Pages:	0001
Pub Date:	5/28/1962
Release Date:	3/30/2001
Keywords:	UNITED STATES MEXICO ACTIVITIES ANTI-UNITED STATES STUDENTS
Case Number:	EO-1999-00043
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

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TELEGRAM INCORMATION REPORT TELEGRAM



AUTONOMA DE MEXICO (UNAM - NATIONAL AUTONOMOUS UNIVERSITY OF MEXICO)

PAINTING PLACARDS AND SIGNS TO BE USED IN ACTIVITIES IN PROTEST

AGAINST THE PROJECTED VISIT TO MEXICO OF JOHN F. KENNEDY, PRESIDENT OF THE

UNITED STATES. THE GROUP IS ALSO MAKING PLANS FOR ANTI-UNITED STATES

DEMONSTRATIONS IN CONNECTION WITH THE VISIT.

2.

END OF MESSAGE

APPROVED FOR RELEASE DATE: MAR 2001



E0 12958 3.4(h)(1)>25Yrs.

TELEGRAM INFORMATION REPORT TELEGRAM

Title:	REPORT OF PLANS MADE BY COMMUNIST STUDENTS OF THE UNIVERSITY OF NUEVO LEON AGIA
Abstract:	
Pages:	0002
Pub Date:	6/6/1962
Release Date:	8/28/2002
Keywords:	MEXICO COMMUNIST KENNEDY PRESIDENT VISIT STUDENTS
Case Number:	EO-1999-00042
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

TELEGRAM IN ORMATION REPLAT TELEGRAM

CENTRAL INTELLIGENCE AGENCY

This motori 793 and 7	al contains informat 74, the transmission	ion affecting the Nation or revolution of which i	nal Defense of the Un n any manner to an	Ited States with underthorized po	in the meaning of irriging is prohibited by		n, Tale 18, U.S.C. Secs.
			ASSIFICATION DISS S-E-C-	T	NTROLS	,	Pro Dif
COUNTRY	MEXICO		4		REPORT NO.		<u> </u>
SUBJECT	DEDODE OF 1	TAVE WATE DV	DUM	AN	DATE DISTR.	& HIMP 10	69
1000001	OF THE UNIT	PLANS MADE BY PERSITY OF NUE CENNEDY'S VISI	T TO MENDOOR	RSEN	PRECEDENCE		J2
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NFO.			TAY		REFERENCES		IN 45286
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OURCE	SOILIAGA	IED INTOKKNION.	SOUNCE ORNING	A DE DE IN	III G AFFRANCE	T CONTENT	is leniante.
	1						
•	1. ON 31 1	MY 1962 JOSE	REFUGIO LOPE	z salinas	, A STUDEN	T AT THE M	EDICAL SCHOOL
OF T	HE UNIVERSI	ry of nuevo li	ON, MONTERRE	Y, AND A	MEMBER OF	THE MEDICA	L SCHOOL CELL
OF T	HE PARTIDO	COMUNISTA MEXI	CANO (PCM -	MEXICAN (COMMUNIST P	ARTY), SAI	D THAT "WE
ARE	READY FOR KI	SNNEDT WHEN HE	ARRIVES."	HE SAID	THAT THE MU	RDER OF RUI	BEN JARAMILLO
		IN MEXICO CITY					
		JIET VISIT OF		•			OMMENT:
	*						,
ACCO	RDING TO PRO	ess reports,	ARAMILLIO, A	POM LEADS	SR ACTIVE A	HONG PEASA	NT GROUPS IN
GUER	RERO AND MI	CHOACAN TO EST	ABLISH AGRAR	IAN REFOR	MS, WAS ARE	RESTED AT	HIS HOME BY
MEMB	ERS OF THE	JUDICIAL AND I	EDERAL POLIC	E. JARAN	IILLO, HIS 1	WIFE AND T	HREE SONS
WERE	TAKEN TO A	N UNKNOWN PLAC	E. A SHORT	TIME LAT	ER THE BODI	ES OF ALL	FIVE MEMBERS
OF T	HE FAMILY W	ERE FOUND SHOT	r.)	357			
			LASSIFICATION - DISS	MINATION CO	ONTROLS		Stated from admential
			S-E-C/				declaration and
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CLASSIFICATION --- DISSEMINATION CONTROLS 45286 FIELD DISSEM END OF MESSAGE CHES ... HRESTAL TAPLER TAPLER TUNDY

Title:	APPARENT FAILURE OF COMMUNIST PLANS TO DISRUPT THE VISIT OF PRESIDENT KENNEDY T
Abstract:	
Pages:	0002
Pub Date:	6/6/1962
Release Date:	8/28/2002
Keywords:	MEXICO KENNEDY PRESIDENT VISIT
Case Number:	EO-1999-00042
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

TELEGRAM IN DRMATION REPC AT TELEGRAM

CENTRAL INTELLIGENCE AGENCY

793 and 79	4, the transmission or revelation of w	hich in any manner to	on unauthorized p	erson is prohibited by	y law.	Time IR, WALL Sec.
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		C-O-N-F-I	-DE-N-T-I-	HE YE		FILE
COUNTRY	MEXICO	/		REPORT NO.		TH BUNG
DATE OF	APPARENT FAILURE OF TO DISRUPT THE VISIT TO MEXICO	OF PRESIDENT	KENNEDT	PRECEDENCE	6 JUNE 196	2 — DUNGAN — GILDNER — KAYSEN — PETERSEN — SCHLESINGER — TAYLOB
	S OTHEY ALDATED INFORMAT	TION, SOURCE GRAD	INGS ARE DEFIN	FIELD REPORT	And the second s	
SOURCE					1	RASKIN SAUNDERS

- 1. PLANS OF THE POLITICAL COMMISSION OF THE PARTIDO COMUNISTA MEXICANO (PCM MEXICAN COMMUNIST PARTY) TO HOLD A PUBLIC DEMONSTRATION IN PROTEST AGAINST THE SCHEDULED VISIT OF PRESIDENT KENNEUR TO MEXICO APPEAR TO HAVE FAILED. AS OF 25 MAY THE PCM HAD BEEN UNABLE TO REACH ANY AGREEMENT WITH, OR OBTAIN ANY PROMISE OF SUPPORT FROM, THE PARTIDO POPULAR SOCIALISTA (PPS POPULAR SOCIALIST PARTY) OR THE MOVIMIENTO DE LIBERACION NACIONAL (MLN NATIONAL LIBERATION MOVEMENT), RABIDLY ANTI-UNITED STATES, PRO-CUBA COMMUNIST FRONT.
- 2. PARTY CELLS IN THE FEDERAL DISTRICT HAVE BEEN STUDYING THE PROPOSAL OF THE POLITICAL COMMISSION TO HOLD AN ANTI-UNITED STATES RALLY IN CONNECTION WITH THE VISIT. THE MAJORITY OF THE CELLS HAVE AGREED THAT THE PCM SHOULD HOLD THE DEMONSTRATION ONLY WITH THE JOINT COLLABORATION AND PARTICIPATION OF THE PPS

CLASSIFICATION - DISSEMBLATION CONTROLS

C-O-N-F-I-D E-N-T-I-A-L

STATE ARMY/ACSI NAVY AIR JCS SECDEF ASA NIC USIA OCI ONE OCE ORE OO FBI DIA

TELEGRAM INFORMATION REPORT TELEGRAM

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MANDATORY REVIEW
CASE # NLK-99-8
DOCUMENT # 10

APPROVED FOR RELEASE DATE: JUN 2002

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.,		MA
AND THE MLN.		
	ARENAS, LEADER OF THE FRENTE OBRERO (FO - LABOR FRONT). A.
		1. a. 4)
	PCM, AND HIS FOLLOWERS ARE MAKING PR	
KENNEDY ACTIVITIES. (ORTEGA AND JOSE REVUELTAS SANCHEZ, LE	ADER OF THE ESPARTACO
GROUP, AN INDEPENDENT	COMMUNIST GROUP, HOPE TO INCITE UNIV	ERSITY STUDENTS TO
-	TIES, THE PURPOSE OF WHICH IS TO REPU	
	S NOT WANTED IN MEXICO.	200
	UL THAT WORKER GROUPS IN THE FEDERAL	
ANY ACTIVITY IN PROTE	ST AGAINST PRESIDENT KENNEDY'S VISIT	HECAUSE NONE OF THE
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GROUPS HAS SUFFICIENT	INFLUENCE.	
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5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	USIA, CINCARIB.
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	USIA, CINCARIB.
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	USIA, CINCARIB.
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	VISIT OF PRESIDENT USTA, CINCARIB. WG 1974 WG
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	USTA, CINCARIB.
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	VISIT OF PRESIDENT USTA, CINCARIB. WYGURE W
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	VISIT OF PRESIDENT USTA, CINCARIB. AVG. 1975 BVPK A ROPER GFIN LYATOB BELEVIT
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	VISIT OF PRESIDENT USIA, CINCARIB. TVG TEST SVEY A ROSEES SELECT CV TEEK CUTERE
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	VISIT OF PRESIDENT USIA, CINCARIB. TVG TEST SVEY A ROSEES SELECT CV TEEK CUTERE
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	VISIT OF PRESIDENT USIA, CINCARIB. TVG TEST SVEY A ROSEES SELECT CV TEEK CUTERE
5. CMMEN ANTI-UNITED STATES RA KENNEDY	T: EARLIER REPORTS DESCRIBED FOM PLANTILLY IN PROTEST AGAINST THE SCHEDULED IN STATE, ARMY, NAVY, AIR, FBI, LANS,	VISIT OF PRESIDENT USIA, CINCARIB. TVG TEST SVEY A ROSEES SELECT CV TEEK CUTERE

Title:	NATIONAL LIBERATION MOVEMENT PLANS IN CONNECTION WITH APPROACHING VISIT OF PRES
Abstract:	
Pages:	0001
Pub Date:	6/9/1962
Release Date:	8/28/2002
Keywords:	MEXICO KENNEDY PRESIDENT VISIT
Case Number:	EO-1999-00042
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

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SE	contains information affecting the National Defense of the United State the transmission or revelation of which in any manner to an unaethorized RET PRIES In)	s within the meaning of person is prohibited by FION CONTROLS	of the Explonage Laws, Ti	FILE
COUNTRY	MEXICO	REPORT NO.		
SUBJECT	NATIONAL LIBERATION MOVEMENT PLANS IN CONNECTION WITH APPROACHING VISIT OF PRESIDENT KENNEDY	DATE DISTR.	9 JUNE 1962	DUNGAN GILDNER
DATE OF INFO.		REFERENCES	ROUTINE	KAYSEN PETERSEN 48969 DOENGER TAYLOR
PLACE & DATE ACQ. APPRAISAL	HIS ISUNEYALUATED INFORMATION, SOURCE GRADINGS ARE D	FIELD REPORT N		BELK FORRESTAL
SOURCE				DITOTION RS

- 1. THE NATIONAL LIBERATION NOVEMENT (MLN), RABIDLY ANTI-UNITED STATES, PRO-CUBA COMMUNIST FRONT, WILL HOLD AN URGENT EXTRAORDINARY MEETING ON THE NIGHT OF 14 JUNE FOR THE SPECIFIC PURPOSE OF ISSUING DIRECTIVES TO RAILROAD WORKERS, TEACHERS, LEFTISTS, AND STUDENTS OF THE NATIONAL AUTONOMOUS UNIVERSITY OF MEXICO (UNAM) THE NATIONAL POLYTECHNICAL INSTITUTE (IPN), AND THE NORMAL SCHOOL, IN PREPARATION FOR THE APPROACHING VISIT TO MEXICO OF JOHN F. KENHEDY, PRESIDENT OF THE UNITED STATES.
- 2. THE MLN WILL HOLD A PICNIC IN THE PEDREGAL AREA OF MEXICO CITY ON 10 JUNE, AND A PRO-CUBA RALLY ON 12 JUNE.

3. FIELD DISSEM: STATE ARMY NAVY AIR FBI INS CINCARIB.

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S	ECRET		CLASSIFIC	ATION DISSEMINATION CONTROLS		
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MANDATORY REVIEW
CASE # NLK- 99-8
DOCUMENT # 15

APPROVED FOR RELEASE DATE: JUN 2002

Case Number: Copyright:	EO-1999-00042 0
Keywords:	MEXICO KENNEDY PRESIDENT VISIT
Release Date:	8/28/2002
Pub Date:	6/10/1962
Pages:	0002
Abstract:	
Title:	MEXICAN COMMUNIST PARTY MANIFESTO AGAINST THE APPROACHING VISIT OF PRESIDENT KE

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COUNTRY	MEXICO		DUNGAN DUNGAN	TREPORT NO.	,	
	MEXICAN COMMUNI THE APPROACHING	ST PARTY MANIFES VISIT OF PRESID	_ PETERSEN	DATE DISTR.	10 JUNE 196	2
DATE OF INFO.		Jr.	TAYLOR	REFERENCES	· IN	49144
PLACE & DATE ACQ. APPRAISAL	4	INFORMATION, SOURCE	RRESTAL	FIELD REPORT I		INITATIVE
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PUBL	ICATION OF TH	E PARTIDO COM	UNISTA MEXIC	ANO(PCM) MI	EXICAN	
COMM	UNIST PARTY,			·	CONTAINS	
A VI	OLENT MANIFES	TO AGAINST TH	E APPROACHIN	G VISIT TO	MEXICO OF	
JOHN	F. KENNEDY,	PRESIDENT OF	THE UNITED S	TATES. IT	APPEALS TO	ALL
		RATIC FORCES,				
		OPULAR SOCIAL				
		IAL(MLN)NATION			40	.AR
MASS	ES, WORKERS,	PEASANTS, WOM	EN, STUDENTS	, AND YOUT	н, то	
PUBL	ICLY DEMONSTR	ATE THEIR REP	UDIATION OF	PRESIDENT	KENNEDY AND) THE
OPPR	ESSIVE AND AC	GRESSIVE IMPE	-1, W. 15	1 162	SENTS	-1
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MANDATORY REVIEW
CASE # NLK-99-8
DOCUMENT #__17

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	. TO DEMAND THAT MEXICO SEVER REL	FOR
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Title:	STUDENT PLANS TO PROTEST VISIT OF PRESIDENT KENNEDY
Abstract:	
Pages:	0001
Pub Date:	6/12/1962
Release Date:	8/28/2002
Keywords:	MEXICO KENNEDY PRESIDENT VISIT PROTEST STUDENTS
Case Number:	EO-1999-00042
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

TELEGRAM IN ORMATION REPERT TELEGRAM

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PLACE DATE A APPRA	SAL	FORRES	FIELD REPORT		ATATIVE.
SOURCE			DELIST CIRCLES	IN MEXICO: FRO	Μ.Δ.

- 1. STUDENTS AT THE UNIVERSIDAD NACIONAL AUTONOMA DE MEXICO (UNAM NATIONAL AUTONOMOUS UNIVERSITY OF MEXICO) ARE THINKING OF FLYING A CUBAN FLAG AT THE UNIVERSITY DURING THE STAY OF JOHN F KENNEDY, PRESIDENT OF THE UNITED STATES, AND GUARD IT CONSTANTLY WITH A STUDENT GUARD. IF THEY DO NOT USE THE CUBAN FLAG, THE STUDENTS HAY FLY THE MEXICAN FLAG AT HALF MAST OR SIMPLY PLACE BLACK FLAGS AT THE UNAM BY WAY OF PROTEST.
- 2. THE STUDENTS ARE ALSO PLANNING TO PUBLISH A SMALL LEAFLET CONTAINING A POEM BY PABLO NERUDA, PROMINENT CHILEAN COMMUNIST POET, AND AN ANTI-U.S. CARTOON. STUDENIS BELIEVE THAT KENNEDY PLANS TO VISIT THE UNAM, AND WILL STAGE THEIR PROTESTS AT THAT TIME.

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MANDATORY REVIEW
CASE # NLK-99-8
DOCUMENT #_22

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Title:	PLANS OF MEXICAN COMMUNIST AND MARXIST PARTIES IN CONNECTION WITH THE APPROACHI
Abstract:	
Pages:	0003
Pub Date:	6/12/1962
Release Date:	8/28/2002
Keywords:	MEXICO COMMUNIST MARXIST KENNEDY PRESIDENT VISIT
Case Number:	EO-1999-00042
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

TELEGRAM INFORMATION REPORT TELEGRAM

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COUNTRY	MEXICO PLANS OF PARTIES	MEXICAN COMMUNIST IN CONNECTION WITH PRESIDENT KENNEDY	THE APPROACHING	E 1962PETERSEN GCHLERDICE
DATE OF		THEOTOERI MEMAEDY	8 REFERENCES	FURRESTAL
PLACE & DATE ACQ. APPRAISAL			FIELD REPORT NO.	BASKIN NIDERS

- 1. THE PARTIDO POPULAR SOCIALISTA (PPS POPULAR SOCIALIST
 PARTY) IS STANDING FIRM ON ITS DECISION TO REMAIN INACTIVE DURING
 THE VISIT TO MEXICO OF JOHN F KENNEDY, PRESIDENT OF THE UNITED
 STATES. THIS IS IN OBEDIENCE TO EXPRESS ORDERS ISSUED BY VICENTE
 LOMBARDO TOLEDANO, PPS SECRETARY GENERAL, PRIOR TO HIS DEPARTURE
 FOR EUROPE. OMMENT. LOMBARDO LEFT FOR BUDAPEST ON 23
 MAY TO ATTEND A MEETING OF THE WORLD FEDERATION OF TRADE UNIONS.
 HE ALSO PLANNED TO GO TO GENEVA, PRAGUE AND THE USSR.)
- 2. THE PARTIDO COMUNISTA MEXICANO (PCM MEXICAN COMMUNIST PARTY)
 IS PROCEEDING WITH ITS PLAN TO HOLD A DEMONSTRATION IN PROTEST
 AGAINST PRESIDENT KENNEDY'S VISIT, DESPITE THE FACT THAT BOTH THE PPS

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51	priz.	ARMY/ACSI	NAVY	AIR	JCS	SECD		13 1		i OR	2 00	OTA	EXO
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(When Filled In)			PAGE 2

AND THE MOVIMIENTO DE LIBERACION NACIONAL (MLN - NATIONAL LIBERATION MOVEMENT) HAVE REFUSED TO PARTICIPATE IN IT. THE PCM HAS ORDERED 25,000 HANDBILLS PRINTED EXPRESSING ITS OPPOSITION TO THE VISIT OF PRESIDENT KENNEDY. PCM MEMBERS IN THE FEDERAL DISTRICT WILL PASTE 15,000 OF THESE HANDBILLS ON WALLS IN MEXICO CITY.T THE REMAINING 10,000 WILL BE DISTRIBUTED IN VARIOUS STATES. (PORTION GARBLED - BEING SERVICED) INCLUDE "KENNEDY, NO CUBA, SI YANKEES, NO, AND VIVA CUBA!".

- 3. POLITICAL COMMISSION MEMBERS HAVE ASKED MEMBERS OF THE MOVIMIENTO REVOLUCIONARIO DEL MAGISTERIO (MRM REVOLUTIONARY TEACHERS MOVEMENT), TO SEND PROTESTS TO ADOLFO LOPEZ MATEOS, PRESIDENT OF MEXICO, AGAINST THE APPROACHING VISIT OF PRESIDENT KENNEDY, AND PETITIONS DEMANDING THAT THE MEXICAN FIGHT AGAINST UNITED STATES IMPERIALISM BE INTENSIFIED AND MADE MORE RADICAL. PCM LEADERS ALSO ARE ATTEMPTING TO SABOTAGE THE WELCOME PLANNED FOR PRESIDENT KENNEDY BY PERSUADING LEADERS OF UNIONS AFFILIATED WITH THE TOWARD FEDERACION DE TRABAJADORES DE MEXICO (CTM CONFEDERATION OF MEXICAN IN WORKERS), AND UNION RANK AND FILE MEMBERS TO ABSTAIN FROM PARTICIPATION IN THE PARADE TO HONOR PRESIDENT KENNEDY.
- 4. THE JUVENTUD COMUNISTA MEXICANA (JCM MEXICAN COMMUNISTATE)
 YOUTH) IS CONDUCTING AN ACTIVE CAMPAIGN AMONG STUDENTS AT THE NATIONAL AUTONOMOUS UNIVERSITY OF MEXICO UNAM AND THE NATIONAL

POLYTECHNICAL INSTITUTE (IPN)TO OBTAIN THEIR PARTICIPATION IN THE

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ANTI-U.S. PROTEST DEMONSTRATION PLANNED BY THE PCM. UNDER JCM
DIRECTION STUDENTS ARE PREPARING ANTI-U.S. PLACARDS AND HANDBILLS,
AND HAVE AGREED TO PAINT WALL SIGNS AND PASTE STICKERS ON HOUSES AND
WALLS. JCM MEMBERS ALSO ARE TRYING TO PERSUADE THE STUDENTS TO SEND
INDIVIDUAL AND GROUP PROTESTS TO PRESIDENT LOPEZ MATEOS IN CONNECTION
WITH PRESIDENT KENNEDY'S VISIT.

5. FIELD DISSEM: STATE ARMY NAVY AIR FBI I&NS CINCARIB.

END OF MESSAGE

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CLASSIFICATION - DISSEMINATION CONTROLS

Title:	CENTRAL COMMITTEE INSTRUCTIONS TO BEGIN ANTI-KENNEDY PROPAGANDA CAMPAIGN
Abstract:	
Pages:	0002
Pub Date:	6/12/1962
Release Date:	8/28/2002
Keywords:	MEXICO PROPAGANDA CAMPAIGN PCM ANTI-KENNEDY
Case Number:	EO-1999-00042
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

TELEGRAM INFORMATION REPORT TELEGRAM

SEC	RET	CLASSIFICA	TION — DISSEMINATION CON	FI	E	DESTRA
COUNTRY		ITTEE INSTRUCTIO PROPAGANDA CAMP	NS TO BEGIN		2 JUNE 198	DUNCAN GILDNER KAYSEN PETERSEN
DATE OF		x 3 ,	4	EFERENCES	_M	TAYIXE
PLACE & DATE ACQ. APPRAISAL		7		IELD REPORT NO		PELK TORRESTAL

- 1. ON 28 MAY 62 THE COAHUILA STATE COMMITTEE OF THE PARTIDO
 COMUNISTA MEXICANO(PCM-MEXICAN COMMUNIST PARTY) RECEIVED INSTRUCTIONS
 FROM THE CENTRAL COMMITTEE OF THE PCM TO BEGIN PROPAGANDA CAMPAIGN
 AGAINST THE ASSASSINATION OF RUBEN JARAMILLO AND THE COMING VISIT
 OF JOHN F KENNEDY, PRESIDENT OF THE UNITED STATES. THE CENTRAL
 COMMITTEE ADVISED THAT THE PARTY HAD PREPARED 25,000 ANTI-KENNEDY
 HANDBILLS AND WOULD DISTRIBUTE THEM AT THE APPROPRIATE TIME.
 COMMENT: JARAMILLO WAS ASSASSINATED ON 23 MAY 62.)
- 2. THE CENTRAL COMMITTEE INSTRUCTED THE COAHUILA STATE

 COMMITTEE OF THE PCM TO HAVE ALL PCM LEADERS CHANGE ADDRESSES FREQUENTLY

 AND TO SECURE ALL PARTY FILES AND DOCUMENTS IN CASE OF REPRESSION

STATE ARMY/ACSI NAVY AIR JCS SECDEF NSA NIC USIA OCL ONE OCR OR OO DIA
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CASE # NLK-99-8
DOCUMENT # 24

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BY THE GOVT OF MEXICO.

- 3. ON 4 JUNE 62 THE UNION DE SOCIEDADES DE CREDITO EJIDAL 40-62 (UNION OF LOCAL SOCIETIES OF COLLECTIVE FARM CREDIT 40-62)ORGANIZED A LOCAL DEMONSTRATION IN TORREON, ATTENDED BY APPROX 500 PERSONS, PROTESTING THE ASSASSINATION OF JARAMILLO.
 - 4. FIELD DISSEM STATE FBI.

END OF MESSAGE

CLASSIFICATION — DISSEMIN

Release Decision:	RIPPUB
Copyright:	0
Case Number:	EO-1999-00042
Keywords:	DEMONSTRATION KENNEDY PRESIDENT UNIVERSITY OF MEXICO
Release Date:	8/28/2002
Pub Date:	6/13/1962
Pages:	0002
Abstract:	
Title:	POSSIBLE DEMONSTRATIONS AT THE NATIONAL UNIVERSITY OF MEXICO TO COINCIDE WITH T

TELL RAM INFORMATION REPORT TELEGRAM

SECRET		Angra Mita-Bondi		FI	E
	ONSTRATIONS AT THE	BTERSEN	10	ε 1962	
***************************************	SIDENT KENNEDY	et.s	RECEDENCE		
INFO. PLACE &	MD MECTONIA	OMER	EFERENCES	. IN 10406	
COUNTRY MEXICO PATERIES SUBJECT POSSIBLE DEMONSTRATIONS AT THE STILL UNIVERSITY OF MEXICO TO COING DEATH THE VISIT OF PRESIDENT KENNEDY BATE OF INFO. PATERIES IN 10406 PATERIES PRECEDENCE IN 10406 PATERIES PRECEDENCE IN 10406 PATERIES IN 10406 PATERIES IN 10406 PATERIES PRECEDENCE IN 10406 PATERIES IN 10406 PATERIES IN 10406 PATERIES PRECEDENCE IN 10406 PATERIES IN 10406 PATERIES PRECEDENCE IN 10406 PATERIES IN 10406 PATERIES IN 10406 PATERIES PRECEDENCE IN 10406 PATERIES IN 10406 PATERIES PRECEDENCE IN 10406 PATERIES IN 10406 PATERI					
	INFORMATION, SOURCE GRA	DINGS ARE DEFINITI	VE. APPRAISAL OF CON	ENTIS IENIATIVE.	
_ 1. STUDENT LEA	DERS AT THE SCHOOL	OL OF ECONO	MY OF THE UNIV	ERSIDAD	
NACIONAL AUTONOMA	DE MEXICO (UNAM -	NATIONAL U	NIVERSITY OF M	IEX (CO)	
PLAN DEMONSTRATION	IS IN OPPOSITION	TO THE EXPU	LSION OF STUDE	:NTS	
FOR THEIR PRO-COMM	MUNIST ACTIVITIES	BY IGNACIO	CHAVEZ, RECTO	R OF THE	
UNAM. COMM	ENT: IT IS BELIĚ	ED THAT CHA	VEZ EXPELLED T	HE	
STUDENTS AT THIS T	IME IN HOPE THAT	THERE WOUL	D BE DEMONSTRA	AT I ONS	
TO COINCIDE WITH T	HE VISIT TO MEXI	CO OF JOHN	F KENNEDY, PRE	SIDENT OF	
THE UNITED STATES.	CHAVEZ FEELS T	HAT IF THE	STUDENTS DO NO	T DECIDE	
TO DEMONSTRATE THE	MSELVES ON THE B	ASIS OF THE	SUSPENSIONS (OF THE	
STUDENTS, THEY WIL	L RECEIVE INSTRU	CTIONS FROM	THE COMMUNIST	S FOR FULL	
SCALE DEMONSTRATIO	ONS WHICH WOULD I	NTERRUPT TA	LKS BETWEEN KE	ENNEDY	
SECRET	CLASSIFICATION	- DISSEMINATION COT	MEOLS	Sectional Street Access and when the	
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MANDATORY REVIEW
CASE # NLK-99-8
DOCUMENT #_4

EO 12958 3.4(h)(1)>25Yrs

APPROVED FOR RELEASE Date: Jun 2002

24000

SEC/RET AND ADOLFO LOPEZ MATEOS, PRESIDENT OF MEXICO.) FIELD DISSEM : STATE ARMY NAVY AIR FBI INS CINCARIB.

PORTE

MONTH OCHO

END OF MESSAGE

CLASSIFICATION --- DISSEMINATION CONTROL

SECRET

Title:	CENTRAL INTELLIGENCE AGENCY; OFFICE OF CURRENT INTELLIGENCE; MEXICO: FACTS AND
Abstract:	
Pages:	0003
Pub Date:	6/20/1962
Release Date:	11/29/2000
Keywords:	MEXICO IMPORTS STATISTICS AGRICULTURE FACTS FIGURES INCOME
Case Number:	EO-1999-00032
Copyright:	0
Release Decision:	RIFPUB
Classification:	U

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CENTRAL INTELLIGENCE AGENCY OFFICE OF CURRENT INTELLIGENCE

20 June 1962

MEXICO: Facts an	d Figures	Rank in LA
Capital	Mexico City (1960 Federal Dis- trict population 5,000,000.)	
Area	760,000 sq. miles	3rd
Population	35,000,000 (3.3% annual increase)	2nd
Racial comp:	10% white 61% mestizo 29% Indian	11th(%) 9th(%) 5th(%)
Religious regis- tration:	96% Catholic 1% all other 3% no religion	e e
Illiteracy rate	40%	6th lowest
Per capita in- come (1961)	\$314	8th
Labor organized	15%	7th
Economically active population	32% : Agriculture	
US private in- vestment (1960)	Amount: \$960,000,000 Share of total foreign: 60%	3rd after Venez., Braz. 11th
Budget (1961)	\$1,000,000,000	6th

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MANDATORY REVIEW
CASE # NLK-99-5
DOCUMENT #_6.h

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Chief Exports (1960) Coffee (12%)

Lead and Zinc (10%)

Only nation whose 4 top exports make up less than 50% of total.

Exports to US (1961) Amount: \$502,000,000 % of total: 61.7

Imports from US (1961) Amount: \$795,000,000

% of total: 70

Other major trading partners (1959)

Exports to Japan.....\$52,000,000

W. Germany... 18,000,000 UK..... 14,000,000

Imports:

W. Germany...\$67,000,000

Canada..... 26,000,000 Italy..... 20,000,000

(% of total value) Imports by type of commodity 1939 1956 (selected) Class 0.2% down Foodstuffs Crude and semi-processed 3.5% 8.6 down 12.1 materials 13.7% down Light manufacture 26.0 12.3 Heavy machinery and transp. 17.1% 49.0 up 31.9 equipment

Note: Total value was 630 million pesos in 1930, 12,291 million in 1956, so that 1956 imports of heavy machinery and transportation equipment alone were ten times the value of all 1939 imports.

Role of Agriculture in GNP: (Millions of pesos)

Year	GNP	Agr. Prod.	Agr. %
1950	41,500	7,223	17.4%
1957	58,000	10,253	17.7
1958	60,600	13,514	22.3
1959	63,400	13,609	21.5
1960	67,000	13,663	20.4

Note: The breakthrough centered in 1958 and, while agricultural production has leveled off, it should continue to show some increase.

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Agriculture in the Trade Balance: (Millions of pesos)

Year	Total imbalance	Agricultural plus balance
1959	-3,576	3,452
1960	-5,584	3,773

Average daily per capita food consumption in Mexico in 1955 (compared to approximately 3,000 calories in US) was 2,260 calories, of which 1,328 was in cereals.

Title:	MOVIE AUDIENCE REACTION TO THE VISIT OF PRESIDENT KENNEDY
Abstract:	
Pages:	0001
Pub Date:	6/21/1962
Release Date:	8/28/2002
Keywords:	KENNEDY PRESIDENT VISIT MOVIE
Case Number:	EO-1999-00042
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

PELEGRAM INFORMATION REPORT TELEGRAM

	RET	CLASSII	CATION — DISSEMIN	ATION CONTROLS		· .
COUNTRY	MEXICO		SMITE-BU	REPORT NO.		
SUBJECT	MOVIE AUDIEN	CE REACTION T	O THE GILDNES	DATE DISTR.	21 JUNE 19	162
	VISIT OF PRE	SIDENT KENNED		PRECEDENCE	ROUTINE	
DATE OF	RETAIN	OR DESTI	OV SCHLESIN TAYLOR			N 15565
PLACE & DATE ACQ. APPRAISAL		•	- FURREST	AL FIELD REPORT	NO.	

- 1. IN CONNECTION WITH THE APPROACHING VISIT TO MEXICO OF JOHN F KENNEDY, PRESIDENT OF THE UNITED STATES, THE DIRECCION FEDERAL DE SEGURIDAD (DFS-FEDERAL SECURITY POLICE) DETAILED TEN AGENTS TO TEN FIRST CLASS THEATRES IN MEXICO CITY ON 15-18 JUNE TO TEST AUDIENCE REACTION TO NEWSREEL SHOTS OF PRESIDENT KENNEDY. AUDIENCES WERE INDIFFERENT.
- 2. THE NEWSREEL SHORT PERTINENT TO PRESIDENT KENNEDY'S VISIT IS NOW BEING SHOWN IN SECOND-RATE MOVIE HOUSES. THE DFS WILL CONTINUE ITS SURVEY.
 - 3. FIELD DISSEM STATE ARMY NAVY AIR FBI I&NS CINCARIB.

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STATE ARMY/ACSI	NAVY	AIR	JCS	SECDEF	NSA	NIC .	USIA	OCI	ONE	OCR	ORR	00	€X0	ĎΙ
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TELEGRAM INFORMATION REPORT TELEGRAM

MANDATORY REVIEW
CASE # NLK- 99-8
DOCUMENT #_3

APPROVED FOR RELEASED 12958 3.4(b)(1)>25Yrs

Title:	SPANISH REPRESENTATION IN MEXICO
Abstract:	
Pages:	0001
Pub Date:	6/22/1962
Release Date:	11/29/2000
Keywords:	MEXICO SPANISH LOPEZ MATEOS ADOLFO REPRESENTATION KENNEDY VISIT
Case Number:	EO-1999-00032
Copyright:	0
Release Decision:	RIFPUB
Classification:	U

CONFIDENTIAL

22 June 1962

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

Justup File

gt Dung

OCI No. 2293/62

Copy No.

CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: Spanish Representation in Mexico

FILE

The possibility that the presence in Mexico of recognized diplomatic representatives of the Spanish Republican government-in-exile might cause embarrassment during President Kennedy's visit appears to have been averted. Mexican Foreign Minister Tello decided on 21 June that the Spanish Republican chargé will not be included in any of the official Mexican functions, on the condition that the Franco government's unofficial representative in Mexico would not be invited to President Kennedy's lunch in honor of President Lopez Mateos on 30 June. The Franco representative has indicated that he welcomes the compromise proposal: under existing arrangements he would have met the President once while Spanish Republicans were invited to four or five official functions.

APPROVED FOR RELEASE DATE: NOV 2000

JFK LIBRAR MANDATORY - CASE # NUM 99-5



Title:	MESSAGE RE KENNEDY'S SAFETY IN MEXICO	
Abstract:		
Pages:	0001	
Pub Date:	6/29/1962	
Release Date:	11/29/2000	
Keywords:	SECURITY KENNEDY MEXICO CITY SAFETY	
Case Number:	EO-1999-00032	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	

(FOR COMM CENTER USE)

APPROVED FOR RELEASE DATE: NOV 2000

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THE WHITE HOUSE

OUTGOING MESSAGE

CLASSIFICATION

June 29, 1962

1962 JUN 29

FROM: HELMS

OP. IMMEDIATE

TO: EYES ONLY GENERAL CLIFTON, AF-1

INFO:

CITE CAPS299-62

of a coffilial. E0 12958 3.4(h)(1)>25Yrs

E0 12958 3.4(b)(1)>25Yrs

visit will be public relations

success unique in Mexican history. Security situation unchanged. Reports say hard-core of several hundred students will still try to demonstrate along President's route, using megaphones to shout hostile slogans. Secret Service and Mexican authorities know of

EO 12958 3.4(b)(1)>25Yrs

these plans and feel confident of being able to stifle them. es uuu ser

Genchicton Recat 12:02 Pm

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PAGE_ OF



JFK LIBRARY MANDATORY REVIEW CASE # NLK-99 DOCUMENT # 24

WHASA FORM 12 1 JAN 61

Title:	VIEWS OF BERNARDO REYES, MEXICAN AMBASSADOR TO HAITI, CONCERNING RELATIONS BETW
Abstract:	
Pages:	0003
Pub Date:	7/21/1964
Release Date:	12/8/1998
Keywords:	UNITED STATES MEXICO RELATIONS AMBASSADOR MEXICAN HAITI
Case Number:	EO-1998-00113
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

SECRET

CENTRAL INTELLIGENCE AGENCY

· ROUTINE

Intelligence Information Cable

E0 12958 3.4(b)(1)>25Yrs

[6]

COUNTRY HAITI

Mandatory Review

Case # NLJ 98 126

Document # 1100

DISTR. 21 JULY 1964

INFO.

DATE OF JUNE 1964

SUBJECT

E0 12958 3.4(h)[1]>25Yrs

VIEWS

CONCERNING RELATIONS BETWEEN HAITI AND THE UNITED STATES

PLACE & DATE ACQ

REF

'IN

SOURCE

FIELD REPORT NO.

AND

APPRAISAL;

E0 12958 3.4(b)(1)>25Yrs

1. JUDGING FROM CONVERSATIONS HELD WITH FRANCOIS DUVALUER, PRESIDENT OF HAITI, AS OF JUNE 1964.

DUVALIER BELIEVES HE HAS PASSED THE CRISIS IN REGARD TO RELATIONS
WITH THE UNITED STATES. DUVALIER FREIS HE IS GAINING GROUND IN HIS DOMINATION
OF UNITED STATES-HAITIAN RELATIONS. HE HAS SAID THAT, WHEREAS THE DESIRED TERMS
HAVE NOT YET BEEN ACRIEVED, WITHIN A YEAR OR A YEAR AND A HALF HE WILL HAVE THE
AMERICANS POURING A REGULAR CONTRIBUTION OF DOLLARS INTO THE HAITIAN TREASURY
AND GUARANTEEING HIS LEADERSHIP. BY THAT TIME, DUVALIER CONTINUED, HE WILL
NO LONGER PLAY AT BEING PRESIDENT AND CAN ASSUME HIS NATURAL POSITION AS
EMPEROR OF HAITI.

This material contains information affecting the National Defense of the United States within the meaning of the Espionage Laws, Title 18, U.S.C. Sets. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

SEÆRÉT

STATE/INR DIA ARMY/ACSI NAVY AIR JCS SECDEF NSA

NIC AID USIA OCI ONE OCR OR OO DDI TREASURY REPOINCIANT FEI INS 2

DURING JULY THERE WILL BE A CHANGE IN THE APPOINTMENT OF

MINISTERS IN THE HAITIAN GOVERNMENT. COMMENT: CABINET CHANGES

WERE ANNOUNCED ON 18 JULY 196h.) THE PURPOSE OF THE CHANGE WILL BE TO INTRO
DUCE INTO THE CABINET MINISTERS WHO ARE MORE ACCEPTABLE TO THE UNITED STATES.

THIS SUBSTITUTION WILL, IN TURN, FAVORABLY INFLUENCE THE UNITED STATES TO

ED 12958 3.41bHID-25Vrs

APPROVE STRONGER ECONOMIC SUPPORT OF DUVALIER.

3.

- A. THE UNITED STATES WILL SUCCUMB TO DUVALLER'S BLACKMAIL, AND
 THEREFORE THE SOVIET UNION AND BLOC COUNTRIES DO NOT ANTICIPATE THE NECESSITY
 OF SUPPORTING DUVALIER. IF DUVALIER DOES SWING TO THE LEFT, HOWEVER, SUPPORT
 BY THE COMMUNIST COUNTRIES CAN BE WORKED OUT, EVEN THOUGH THE SOCIALIST
 COUNTRIES MIGHT DIFFER OVER HALTI'S POSITION IN THE BLOC.
- B. THE SOVIETS DO NOT WISH THE HAITIAN PROBLEM DISCUSSED IN THE COMMECON (THE COMMUNIST EQUIVALENT OF THE WEST'S COMMON MARKET), BECAUSE OF THE DISSENSION IT MIGHT AROUSE IN THE RANKS.
- C. DUVALIER REALIZES HE CAN USE HIS CAPTIVE PROPLE AS HOSTAGES IN
 INFLUENCING THE UNITED STATES; AND, IN RETURN FOR DUVALIER'S NOT TURNING
 SOCIALIST OR ABUSING HIS PEOPLE, THE UNITED STATES WILL UNDERWRITE BOTH THE
 BASIC COSTS OF THE HAITIAN ECONOMY AND THE ADDED COST OF DUVALIER'S PERSONAL

SECRET

CLASSIFICATION - DISSEMINATION CONTROLS

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NEEDS. THE HAITIAN OVERT BUDGET IS \$9,000,000.00, AND THE COVERT BUDGET USED IN MAINTAINING DUVALUER IN OFFICE IS \$12,000,000.00. WITHIN A FEW YEARS THE GOVERNMENT'S OVERT BUDGETARY HEEDS WILL RISE TO \$20,000,000.00.

- D. DUVALIER IS DEVELOPING HIS MILITARY STRENGTH TO SUCH AN EXTENT THAT WITHIN A YEAR DUVALIER'S OVERTHROW BY HIS OWN FOLLOWERS, OR BY EXILES SUPPORTED BY THE UNITED STATES, WILL BE IMPOSSIBLE. ONCE THIS FORCE IS OF SUFFICIENT SIZE AND STRENGTH, AUTOMATIC OBEDIENCE FROM THE HAITIAN PROPLE WILL BE ASSURED.
- E. POLICE-STATE TACTICS HAVE REDUCED THE HAITIAN ECONOMY TO AN ALL
 TIME LOW WHICH WILL NEVER AGAIN RISE WHILE DUVALUER REMAINS IN POWER. THERE
 WILL BE NO REVIVAL OF TOURISM TO THE DAMGEROUS ISLAND; AND, SINCE THERE ARE NO
 INDUSTRIAL OR AGRICULTURAL PRODUCTS, THE ECONOMY CAN ONLY SINK LOWER.
 - 4. DISSEM: STATE, ARMY (PORT-AU-PRINCE); CINCLANT; CINCSO.

END OF MESSAGE

E0 12958 3.4(h)(1)>25Yrs (C)

SECRET

CLASSIFICATION - DISSEMINATION CONTROLS

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MEC 5.49

(15-20-44-47)

Title:	SECURITY CONDITIONS IN MEXICO
Abstract:	
Pages:	0007
Pub Date:	4/7/1966
Release Date:	1/1/1994
Keywords:	MEXICO SECURITY RUSK SECRETARY EMBARRASS ENDANGER JOHNSON MRS indexf199400566
Case Number:	EO-1993-00004
Copyright:	0
Release Decision:	RIFPUB
Classification:	U



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Mandatory Review
Case # NLJ 13-87
Document #_2

SPECIAL NATIONAL INTELLIGENCE ESTIMATE

NUMBER 81-66

SECURITY CONDITIONS IN MEXICO

Submitted by

DIRECTOR OF CENTRAL INTELLIGENCE

Concurred in by the

UNITED STATES INTELLIGENCE BOARD

As indicated overleaf

7 April 1966

DATE

Authenticated:

EXECUTIVE SECRETARY, USIE

Date Sanday 1994



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The following intelligence organizations participated in the preparation of this estimate:

The Central Intelligence Agency and the intelligence organizations of the Departments of State, Defense, the NSA, FBI, and the United States Secret Service.

Concurring:

Mr. Richard Helms, Deputy Director of Central Intelligence

Mr George C. Denney, Jr. for the Director of Intelligence and Research, Department of State

Lieutenant General Alva R. Fitch for the Director, Defense Intelligence Agency

Mr. Oliver Kirby for the Director of the National Security Agency

Mr J. Edgar Hoover, Director, Federal Bureau of Investigation

Mr. Arthur L. Godfrey, for Chief, United States Secret Service

Abstaining:

Dr. Charles H. Reichardt, for Assistant General Manager for Administration, Atomic Energy Commission, the subject being outside his jurisdiction.

WARNING

This material confides information affecting the National Defense of the United States within the meaning of the explanage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any other to an unauthorized person is prohibited.





CENTRAL INTELLIGENCE AGENCY

7 April 1966

SUBJECT: SNIE 81-66: SECURITY CONDITIONS IN MEXICO

THE PROBLEM

To estimate the likelihood of incidents which would endanger or embarrass Mrs. Johnson and Secretary Rusk during their visit to Mexico City.

CONCLUSION

The political situation in Mexico is considerably more stable than in most Latin American countries. The Institutional Revolutionary Party (PRI) maintains a virtual monopoly over national and local politics. The security forces in Mexico City are experienced and effective in controlling demonstrations. In recent years the Mexican Government has cooperated willingly with the US in eliminating certain longstanding issues in US-Mexican relations and in controlling others. Nevertheless, there are



anti-US elements in Mexico which might attempt to create incidents designed to disrupt US-Mexican relations. While there can be no absolute guarantee against such an incident, we believe that the Mexican Government will take security precautions which will be adequate to protect Mrs. Johnson, Secretary Rusk, and their party.

DISCUSSION

The Political Situation

- 1. The political situation in Mexico is considerably more stable than in most Latin American countries. The official party, the PRI, has dominated Mexican politics for nearly four decades. It encompasses groups ranging from the far left to the extreme right and exercises a virtual monopoly over political offices from national to local levels. While President Gustavo Díaz Ordaz has followed a course to the right of his predecessor's, there is no substantial opposition to his administration.
- 2. Confident of its ability to control the situation, the Mexican Government has permitted Mexico City to become a haven for political exiles from other countries, mostly Communists and other leftist extremists, but including also anti-Castro Cubans. Mexico City is a major center for



Communist activities in Latin America. The Mexican Government, however, maintains some surveillance over the activities of these various extremist and exile groups. Even before the Cuban missile crisis of 1962, moderate and conservative elements in the PRI were exerting pressure to restrict the influence of Castroites, Communists, and other extremists.

3. The Mexican Government still maintains diplomatic relations with Cuba and the USSR, but it has sharply limited pro-Castroite and other anti-US activities. There are still some Communists and other anti-US elements in the bureaucracy, the educational system, peasant groups, and labor unions, but their ability to create disturbances has been curtailed by the administration's coercion and harassment. The orthodox Mexican Communist Party (PCM), the Marxist Popular Socialist Party (PPS) led by Lombardo Toledano, and other extremist movements exist only on official sufferance and have only a very limited ability to rouse public support. The oncetouted Movement of National Liberation (MLN), an anti-US and pro-Cuban mass organization founded in 1961, has lost much of its early support and has been weakened by disagreement among its leaders. The recent efforts of the PCM and PPS to stage anti-US demonstrations in support of the North Vietnamese were an almost complete failure.

The Mexican Government's Position on the Visit

- 4. President Diaz Ordaz, who has placed special emphasis on Mexico's foreign relations, will be concerned to prevent any incident that would impair his government's presitge abroad. His administration also is aware that it needs outside aid in carrying out economic and social reform in rural Mexico, where nearly half the population is receiving few, if any, tangible benefits from the Mexican Revolution. The US, by committing funds under the Alliance for Progress, has already indicated its willingness to assist the Mexican Government's efforts in this field.
- 5. We believe that the Mexican Government will take effective security precautions, in cooperation with US officials, to prevent or control any hostile demonstrations during the visit of Mrs. Johnson and Secretary Rusk. While Minister of Government (1958-1964), President Díaz Ordaz increased the capabilities of the various civil police organizations in the Federal District; he demonstrated his ability to control would-be troublemakers during President Kennedy's visit in June 1962. The Federal District police, which number about 10,000 men, are experienced in detecting and detaining subversives and extremists. They have been effective in controlling demonstrations in the Federal District. If needed, there are also at least 11,000 well-trained and reliable army troops quartered in Mexico City and the immediate vicinity. The army and police forces are anti-Communist and fully responsive to the orders of the Díaz Ordaz administration.

6. Mexico's extremist elements know that the government would crack down hard on any organized agitation during the visit of Mrs. Johnson and Secretary Rusk. The major Communist groups would also feel that any serious incident would bring to an end the freedom they have enjoyed for their propaganda and other overt activities. The most likely source of such an incident would be the radical student groups at the National University, where there is already considerable unrest reflected in a student strike. The approaching anniversary of the US intervention in the Dominican Republic would provide a likely theme for a student demonstration. However, Mexican authorities customarily use detention, coercion, and other warnings to keep such potential troublemakers in line.

Prospects

7. We believe that the Mexican Government will take security precautions which will be adequate to protect Mrs. Johnson, Secretary Rusk and their party from manhandling by an angry mob and to minimize the possibility of a seriously embarrassing demonstration. However, the possibility of an assassination attempt by an individual can never be excluded. The Mexican Government might be less able to ensure security outside of Mexico City.

Title:	(EST PUB DATE) REPORTS ON 4 LATIN AMERICAN COUNTRIES- 1.DOMINICAN REPUBLIC 2.VE	
Abstract:		
Pages:	0002	
Pub Date:	7/1/1967	
Release Date:	1/9/2001	
Keywords:	MEXICO BOLIVIA DOMINICAN REPUBLIC VENEZUELA	
Case Number:	EO-1999-00592	
Copyright:	0	
Release Decision:	RIFPUB	
Classification:	U	

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Dominican Republic 1.

On Christmas Day 1966, Fernando Arturo de la Rosa, Dominican Communist, while returning to the Dominican Republic from a WFTU Conference in Budapest, was arrested in Caracas. De la Rosa was carrying numerous documents, sewn into the lining of his coat, which belonged to members of the Central Committee of the Dominican Communist Party. The documents included a report on the situation in Santo Domingo to the Central Committee of the Cuban Communist Party, notes on meetings with Hanuel PINEIRO Losada, chief of the Cuban Intelligence Service, records of Cuban training promised the Dominican Communist Party, and a list of Dominican CP members trained in Cuba. In the report to the Cubans, the Dominican CP said that it was preparing for revolution in the D.B. by transferring arms to new bases of support, caching arms in safe sites, giving military training to CP members, and penetrating the Dominican Army.

- In January 1967, Dominican authorities detained three Dominicans at the airport as they were preparing to leave. A secret compartment in one of their bags contained reports on recent developments in the Dominican Communist Parties addressed to the Communist Party of Cuba and North Vietnam. Signed documents proved that the Dominican Communists were receiving financial aid from Cuba. Also found in a concealment device were copies of a letter addressed to the Cuban Communist Party and the Cuban Government requesting training for Dominican Communist Party members and photographs of a "classified" map of the Dominican Republic.
- Jose Ignacio MARTE Polanco, a member of the Dominican Marxist Leminist Popular Movement, was arrested in the D.R. in May 1967. After being trained as a clandestine communicator in Cuba, Marte returned to the D.R. and served as communicator for a clandestine espionage net. He was also involved in the counterfeiting of revenue stamps and forging government checks to collect funds for subversive activities. When arrested, agent communications materials were found in his home including miniature code books and one-time pads similar to those which are known to be used by the Soviets.

2, Venezuela

Venezuela is well known as Cuba's primary target for subversion in Latin America. Soviet-manufactured AK-13 weapons have been captured in Venesuela from guerrillas known to have landed in Venezuela from Cuba in July 1966. The boat and motors are known to have come from Cuba.

APPROVED FOR RELEASE DATE: DEC 2000



b. In May 1967 a Cuban/Venezuelan group landed at Machurucuto from a Cuban fishing vessel. The Venezuelan rebels were about to join guerrillas in the eastern mountains. They were supported by Cubans, known members of the regular armed forces and security services. Two Cubans were captured and two killed in this landing.

3. Bolivia

There is now a guerrilla movement active in Bolivia which is supported by the Bolivian CP. Eight top PCB leaders involved in this movement were trained in the Soviet Union. (Roberto PEREDO, whose farm north of Camiri is used as a base by the guerrillas, visited Moscow in 1966.) By their own admission, PCB guerrilla warfare experts working with the Cubans, are attempting to build an active front in Bolivia modeled after the Venesuelan FLM. We know of six Cubans who are engaged in these activities and of Communists from other countries such as Ciro Roberto Busto, limison man from Argentine Communists, and Jules Regis Debray, French Marxist theoretician who is close to Castro. These Bolivian guerrillas are known to have had radio contact with Cuba using the same procedures as taught by the Soviets.

4. Mexico

- a. Mexico is well known as a focal point for Cuban/Soviet machinations. Through Mexico City, requests for training, the funding and supply of various Latin American Communist Parties and movements are serviced by the Cuban and Soviet installations. Travel to Cuba for guerrilla training for Latin Americans is arranged and financed by the Cuban Embassy in Mexico.
- b. In September 1966, the Mexican authorities uncovered an arms sunggling channel which had been providing weapons to Guatemala insurgents. Documents found indicated that over 4,000 weapons were sent via this channel. Julian LOPEZ Dias, a Cuban assigned to the Embassy in Mexico, was known to have been involved in the sauggling channel. LOPEZ was returned quietly and quickly to Havana.



Title:	SECURITY CONDITIONS IN MEXICO
Abstract:	
Pages:	0006
Pub Date:	10/12/1967
Release Date:	4/6/1978
Keywords:	POLITICAL SITUATION RELATIONS STATE VISIT JOHNSON PRESIDENT CIUDAD JUAREZ PRI SECURITY CONDITIONS SECURITY FORCES BORDER DISPUTE ANTI-US ELEMENTS CHAMIZAL DIAZ ORDAZ PRESIDENT indexf199300857
Case Number:	EO-1978-00029
Copyright:	0
Release Decision:	RIFPUB
Classification:	U



รทุษ 81 67 12 October 1967



SPECIAL NATIONAL INTELLIGENCE ESTIMATE

NUMBER BI-67

Security Conditions in Mexico c

Submitted

" Michael Hilliam

DIRECTOR OF CENTRAL INTELLIGENCE

Concurred in by the

UNITED STATES INTELLIGENCE BOARD

as Indicated avected

12 October 1967

NOTE: This is the estimate. No further dissemination will be made.

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Declaratified by __

APR 1978

EXECUTIVE SECRETARY, USIB

SECRET

COMMONTO DESCRIPTION

MAITED DICTRIBETT!

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SECRET

CENTRAL INTELLIGENCE AGENCY

12 October 1967

SUBJECT: SNIP 81-67: SECURITY CONDITIONS IN MEXICO

THE PROBLEM

To estimate the likelihood of incidents which would endanger President Johnson during his visit to Ciudad Juarez on 28 October 1967.

CONCLUSION

We believe that the Mexican security services will manage to keep untoward incidents to a minimum and that the risks entailed in President Johnson's brief visit will be small. One may not, however, rule out the possibility of an assassination attempt by a psychopath or fanatic.

GROUP 1:
Exclosed for automatic downers and declassification

Declassified by 688975

SECRET

Lyndon Saines Johnson Library

DISCUSSION

- 1. Relations between the Mexican and US governments are extremely friendly, and President Johnson is personally popular in Mexico. The occasion for this visit is, moreover, propitious. The ceremonies in which President Johnson and President Diaz Ordez will take part mark the amicable settlement of the long-standing Chamizal border dispute -- a settlement which returns to Mexico certain territory in the Ciudad Juarez-El Paso area.
- 2. The political situation in Mexico is considerably more stable than that in most Latin American countries. The Institutional Revolutionary Party (PRI) maintains a virtual monopoly over national and local politics. Not only is the PRI effective in maintaining stability generally, but it is also an important means for facilitating security for visiting foreign dignitaries, and for President Gustavo Diaz Ordaz during his public appearances in various parts of the country. At such times, the party organizes an appropriate popular reception; when travel by motorcade is involved, it lines the streets with its members and those of its youth wing.
- 3. The Mexican security forces are tough and reasonably corpetent.
 The Presidential Guard, the unit responsible for seeing to the safety of the Mexican President anywhere in the country, is a crack outfit. Moreover,

Mexican legal procedures do not inhibit the police from detaining as many known or suspected trouble-makers as they consider necessary to maintain adequate safeguards. During President Johnson's visit to Mexico City in April 1956, the planning of the top Mexican security officials and the combination of measures carried out by the security forces were well devised and impressive. President Diaz Ordsz himself was responsible for such arrangements when he was Minister of Interior (1958-1964), and he continues to take an active interest in security matters.

- 4. There are, of course, a number of anti-US elements in Mexico.

 Mexico City has long been a haven for political exiles from other countries, mostly Communists and leftist extremists but also including anti-Castro Cubans. The Mexican Government is confident of its ability to control such extremist groups, and maintains surveillance over the activities of some of them. There is the possibility, however, particularly since the Mexican press has already carried stories about Fresident Johnson's planned visit, that a few of these people will go to Cluded Juarez to try to create disturbances or other incidents.
- Ciudad Juarez itself, a vide-open border town of several hundred thousand people, dontains a number of anti-Yankee groups. These are small,

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The most recent Mexican census (1960) gave the population as 262,000. It has since grown rapidly, and present estimates vary from 379,000 to 448,000.

however, and not notably aggressive. Among them are the local unit of the Mexican Communist Party, which probably has no more than 30 active members, a chapter of the Popular Socialist Party, which has fewer, and the Civic Democratic Alliance, a minuscule front group which has joined them in protesting against the US role in Vietnam. The leftists most likely to attempt agitation or demonstrations are a minority group among the students at the School of Agriculture.

- 6. The local authorities know the identities of the leaders of all these groups; most will likely be detained or warned before the visit. The Ciudad Juarez police force is not of the same quality as that in Mexico City, but it has leftist elements cowed, is accustomed to dealing with rough customers of whatever stripe, and usually has a line on any local citizens who might be dangerous. Some 350 of the uniformed police have been assigned special duty for the time of the visit, and plainclothesmen will be mingling with the crowd.
- 7. Mexico's Minister of Defense is in overall command of all security forces during President Johnson's visit; the Federal Security Police are in charge of the security preparations. Army units will play a major part. The military unit normally assigned to Ciudad Juárez is the First Infantry Battalion, some 600 strong. A battalion of the Presidential Guard has already been dispatched to supplement this force, and an additional infantry battation from Mexico City is to move in soon.

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8. We therefore anticipate that a substantial force of security personnel will be provided, and that the security arrangements will be effective as they apply to controlling groups and organized activities. One may not, of course, rule out the possibility of an assassination attempt by some individual -- perhaps a psychopath or a fanatic, who could be Mexican, American, or any other nationality. This possibility is of particular concern because of the physical circumstances in which the President will be exposed to crowds while driving in an open car down relatively narrow streets of a border town.

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DIRECTORATE OF INTELLIGENCE

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Mexico: The Problems of Progress

Special Report WEEKLY REVIEW

Secret

NO

20 October 1967 SC No. 00792/67A Special Reports are species at to the Chirent Intelligence Weekeese and by the Office of Carrent Intelligence. The Special Reports are published separately to permit none proportionistic treatment of a subject. They are prepared by the Office of Carrent Intelligence, the Office of Research and Reports or the Directorate of Science and Technology. Special Reports are coordinated as appropriate among the Directorates of CIA but, except for the normal substantive exchange with other agencies at the working level have not been coordinated outside CIA unless specifically indicated.

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GROUP 1

EXCURDED FROM AUTOMATIC INCRMINATION AND DECLAROPTICATION

MEXICO: THE PROBLEMS OF PROGRESS

Mexico's general record is one of economic progress and political stability, but unrest during the past year points up two basic problems. One is the failure to fulfill a fundamental aspiration of the Revolution of 1910--improving the lot of the peas-Though many in the rural population now are much better off than before, the high rate of population growth, the gradual exhaustion of distributable land, and the limited number of jobs for peasants in urban industry have made the problem of rural poverty an increasingly serious one. The second problem stems from the success of Mexico's educational system, which has brought the expanding middle class of the generally prosperous urban areas to a level of sophistication that will bring it into conflict with Mexico's paternalistic system of government. This educated group is becoming openly critical of the gap between the real Mexico and the Mexico of the government's "revolutionary" propaganda.

Background

Mexico's emergence as an urban-based, rapidly modernizing society has been possible because of its unusual form of government, which has provided a continuity of commitment and programing that is the envy of its southern neighbors. Through its oneparty system, Mexico regularly accomplishes a peaceful transfer of power, or as is sometimes said, Mexico retires its dictators every six years. A facade of adherence to the principle of multiparty, representative government is maintained but carefully controlled. Challenges in recent years to government authority have presented no real

threat to internal stability. The extreme left continues divided and weak. The armed forces are a model institution compared with the rest of Latin America. They are loyal, effective, and dependable.

This record of stability and development is threatened, however, unless the regime can free itself of some of the revolutionary shibboleths that have served well in forging national unity but now are making obvious solutions to serious problems politically infeasible.

In dealing with rural poverty, for example, it is impossible to abandon the vaunted

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ejido system of communally held land despite the all-too-obvious failure of that form of agrarian reform to do more than ameliorate the miserable rural situation, which in fact is growing worse.

The hopes held out by the government's land-distribution program vanished when the Diaz Ordaz regime admitted in 1964 that there is not enough land to go around. Despite the apathy characteristic of groups unused to controlling their own destiny, the already serious pressure for improved conditions in the countryside is bound to grow and become more explosive. The problem is compounded by improvements in communications and education that are making the rural population more aware of this neglect and more eager for a better standard of living.

Violence in the Countryside

Rural unrest is frequently manifested in violent outbreaks. Over the past several years there have been numerous armed clashes between peasant groups and Mexican security forces in various parts of the country. Open peasant resentment has been particularly evident in the northern tier of states -- notably Chihuahua--in Yucatan, and in Guerrero. The political establishment places a high premium on "keeping the lid on" this explosive situation. The chief of the peasant sector of the ruling party was forced to withdraw from his position following an August shoot-up in Acapulco and other recent clashes



Cartoon portrays the plight of the rural poor despite the flood of promises.

nearby in the same state of Guerrero.

Peace is maintained by the Mexican Army, which is both brutally effective and politically astute. The army has dispatched units to scenes of unrest where, after publicizing an imminent "training maneuver," they have used a hillside for massive firing practice, blasting all standing objects to rubble.

The Contrast of National Prosperity

In contrast with continuing rural poverty, the Mexican economy in 1967 has continued its long record of rapid growth. Private investment has been especially strong for the third consecutive year and the Gross National Product is expected to increase by at least 7.5 percent, or nearly 4 percent

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per capita. Industry continues to lead the economy; industrial output in June was nearly 11 percent higher than a year earlier. Agricultural output this year is expected to increase by 4 or 5 percent.

There are no signs of any serious inflationary pressures, but high investment rates have caused imports to increase at an exceptionally rapid pace while exports have grown only a little. Through June, Mexico's trade deficit was about \$100 million larger than in the first half of 1966.

Mexico has had no difficulty in financing its large balanceof-payments deficit on favorable terms. The growing foreign indebtedness, however, has been of major concern to President Diaz Ordaz since his inauguration in December 1964. To meet this problem he cut back public investment spending in 1965 and 1966, implemented some minor tax reforms, and imposed government control over the expenditures of autonomous state enterprises and agencies. Holding down public spending this year will be more difficult because of preparations for the 1968

Total Population of Mexico - 45 Million

45% of total in agriculture

Landless Peasants

40%

Ejiditarios (Communal farmers

35%

15%

Private Farmers with less than $12\frac{1}{2}$

acres

10%

Private Farmers with over $12\frac{1}{2}$ acres

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Page 3 SPECIAL REPORT

20 Oct 67

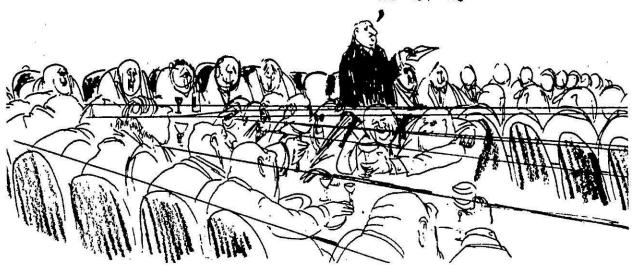
summer Olympics, and because of relief spending for the Yucatan Peninsula and the northeast which were hit by hurricanes in September. Moreover, there is an increasing sense of urgency for coming to grips with the continuing problems of poverty.

For more than a generation,
Mexico's war on poverty has emphasized the development of industry and services in urban areas.
Considerable progress has been
made, and somewhat more than half
the population has benefited.
The modern sectors of the economy
are growing at a rate sufficiently
high to absorb all of the increase
in the urban labor force and as
much as 60 percent of that from
rural areas. For the balance of
the population, in rural areas

where living standards are little above subsistence, productive employment is increasingly difficult to find because of the shortage of arable land.

President Diaz Ordaz has increased the share of public investment and services going to agriculture, and is channeling greater amounts of private bank credit to small farmers. These measures are modest, but even a large-scale diversion of planning and funds from industry to agriculture would not solve the problem of rural poverty for many In any case, the President's ability to make such a change in basic development strategy is limited by the prospect that this might destroy the basis of present progress. Also, to

MALAS NOTICIAS, AMIGOS: ESTABAMOS ESPERANDO AGASAJAR a un verdadero troducionario trexicano y nos informan Que se murio de hambre



"Bad news, friends: we were waiting to fete a true Mexican revolutionary and they tell us he died of starvation."

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Page 4 SPECIAL REPORT

20 Oct 67

reverse openly the revolutionary commitment to the ejido would invite strong political repercussions.

The Problem of Education

Revolutionary myths are also beginning to backfire among those very elements which have benefited substantially from the postrevolutionary system. The large, mainly urban middle class is beginning to decry more openly the great discrepancies between what Mexico is and what the propaganda says it is.

Mexico's political stability has been based largely on the unity of the ruling party, the Institutional Revolutionary Party (PRI). The PRI has been a highly effective instrument of the small clique that has pre-empted political power while lavishly promoting the trappings of partisan competition. Successful maintenance of the benevolent dictatorship behind a facade of a federal republic responsive to the popular will has depended on an uneducated, backward "electorate" resigned to unethical practices and political bossism.

In recent years, however, education and the distribution of wealth among a growing middle class have created an increasingly sophisticated population resentful of the nation's political policies which they see as cynical. A serious defiance of the dedazo practice, whereby Mexico City chooses local and regional PRI candidates, occurred early this year in the state of Sonora. Between February and May the state was in a virtual condition

of insurrection, with the citizenry protesting the PRI's choice for the governorship. Federal troops restored calm, and electoral fraud delivered a PRI victory in the 2 July election. Government reprisals against opposition leaders in the state have further embittered the Sonoran public, already frustrated by its inability to win concessions from the The government clearly has the ability to contain such eruptions by force, but the growing restiveness of the electorate is a real challenge to the PRI.

Prospects

President Diaz Ordaz' domestic political policies suggest his awareness of the need to modify the political system. He has gone further than his predecessors in permitting open debate on sensitive domestic issues, has given small opposition parties representation in the legislature whether their voting strength merited it or not, and has encouraged "democratizing" the PRI. He has tried, for example, to implement party statutes permitting municipal primaries and to promote personal instead of organizational affiliation with the party.

These attempts, however, have created serious strains in the party and have deeply antagonized those elements whose power base would be diminished by the reforms envisioned. The reaction makes it clear that the political moment has not arrived when the PRI, as a united organization, can bear a really significant step toward democratization.

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Page 5 SPECIAL REPORT 20 Oct 67

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6 20 3 8 Z CITE

DIST 8 MARCH 1968

COUNTRY: GUATEMALA/MEXICO

ED 12958 3.4(b)(1)>25Yrs

DOI : 3 MARCH 1968

SUBJECT: PLANS OF THE MELVILLE BROTHERS' GROUP FOR REVOLUTIONARY

ACTION AGAINST THE GUATEMALAN GOVERNMENT, AS RELATED BY

AN ADHERENT OF THE GROUP

ACQ : E0 12958 3.4(b)(1)>25Yrs

SOURCE :

COMMENT: FOR EARLIER RE-

LATED INFORMATION ON THOMAS AND ARTHUR MELVILLE, U.S. CITIZENS AND FORMER MARYKNOLL PRIESTS IN GUATEMALA, WHO WERE EXPELLED FROM THEIR RELIGIOUS ORDER AND HAVE ORGANIZED A REVOLUTIONARY MOVEMENT CONSISTING TO DATE OF STUDENTS.)

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E0 12958 3.4(h)[1]>25Yrs

APPROVED FOR RELEASE DATE: SEP 2001

S & S & S T/NO FEBRUAR DIRECT.

2. JUAN LOJO ROMERO, FORMER MEMBER OF THE GUATEMALAN REBEL
ARMED FORCES (FAR) WHO IS NOW CONNECTED WITH THE REVOLUTIONARY

E0 12958 GROUP FORMED BY THOMAS AND ARTHUR MELVILLE, FORMER MARYKNOLL

3.4(b)(1)-25Yrs

(C) PRIESTS, STATED THE FOLLOWING

3. THE MELVILLE GROUP HAD ORIGINALLY CONSIDERED ENTERING GUATEMALA IN EARLY APRIL 1968 TO INITIATE ITS REVOLUTIONARY ACTION AGAINST THE GOVERNMENT, BUT NOW IT HAS DECIDED TO WAIT UNTIL MID-MAY. PART OF THE DELAY IS ATTRIBUTABLE TO THE LACK OF ORGANIZATION, ARMS, AND FUNDS, AND PART TO A WEATHER FACTOR. THE RAINY SEASON IN GUATEMALA BEGINS IN MAY AND CONTINUES THROUGH HOVEMBER, DURING WHICH TIME THE GUATEMALAN ARMY STAYS IN THE BARRACKS. THIS CURTAILMENT OF ACTIVITY WILL GIVE THE MELVILLE GROUP TIME TO ESTABLISH ITSELF FIRMLY IN THE DEPARTMENT OF HUENUETENANGO AND TO PREPARE TO ENCOUNTER THE GUATEMALAN ARMY IN NOVEMBER WHEN THE RAINY SEASON ENDS. THE MELVILLE GROUP DOES NOT WANT CLASHES WITH THE ARMY BUT WILL FIGHT IF NECESSARY. THE OVER-ALL PLAN IS TO RECRUIT THE ENTIRE INDIAN POPULATION IN HUEHUETENANGO AND "TAKE OVER" THE DEPARTMENT. ONCE THIS IS ACCOMPLISHED, THE MELVILLE GROUP PLANS TO ASK THE GUETMALAN COMMUNIST PARTY (PGI) AND THE FAR TO JOIN FORCES IN THE FORMA-

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THE GUATEMALAN GOVERNMENT TO RESIGN. A NEW GOVERNMENT WILL
THEN BE FORMED BY THE "NATIONAL UNITED FRONT." THERE WILL BE
AN EXPLICIT UNDERSTANDING BETWEEN THE MELVILLE GROUP AND THE
PGT AND THE FAR THAT THE FRONT WILL BE A NATIONAL ONE AND NOT
ONE CONTROLLED BY THE SOVIETS, THE CHINESE COMMUNISTS, OR THE
CUBANS.

4. IN EARLY OCTOBER 1968, AFTER HAVING GAINED A FOOTHOLD
IN THE DEPARTMENT OF HUEHUETENANGO, THE MELVILLE BROTHERS PLAN
TO ISSUE A DECLARATION ON THEIR REASON FOR BEING IN GUATEMALA.
THE PRESENT PLAN IS TO WRITE A DOCUMENT WHICH WILL BE SIGNED BY
ALL MEMBERS OF THE GROUP AND WILL BE BROADCAST VIA SHORTWAVE
IN THE UNITED STATES. ONE OF THE MELVILLE BROTHERS WILL READ
THE DECLARATION, WHICH IN ESSENCE WILL BE A CRITICISM OF THE
UNITED STATES' GOVERNMENT, AS BEING COMPLETELY AT FAULT FOR THE
PROBLEMS BESETTING GUATEMALA, SUCH AS EXPLOITATION BY THE UNITED
FRUIT COMPANY. THE MELVILLE BROTHERS WILL STATE THAT THEY ARE
IN GUATEMALA FOR THE PURPOSE OF CHALLENGING THE UNITED STATES
AND ITS PUPPET GOVERNMENTS. THEY HAVE CHOSEN OCTOBER AS THE

TIME TO MAKE THE DECLARATION BECAUSE IT IS ONLY ONE MONTH BEFORE

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THE U.S. ELECTIONS.

MONETARY SUPPORT FOR THE REVOLUTIONARY MOVEMENT IS CURRENTLY BEING RAISED BY THOMAS MELVILLE IN THE UNITED STATES AND
BY THREE PRIESTS AND TWO HUNS OF THE MARYKNOLL ORDER IN
GUATEMALA. COMMENT: LOJO DID NOT GIVE DETAILS AS TO
HOW THE LATTER PERSONS ARE ATTEMPTING TO OBTAIN THIS FINANCIAL SAIDHUD-25YES
SUPPORT.)

6. DISSEM: STATE ARMY NAVY AIR CINCSO CINCLANT

REPORT CLASS SECRET/NO FOREIGN DISSEM

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SNIE 81 - 68 28 MARCH 1968

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SPECIAL NATIONAL INTELLIGENCE ESTIMATE

SECURITY CONDITIONS IN MEXICO CITY

DIRECTOR OF CENTRAL INTELLIGENCE Concurred in by the

UNITED STATES INTELLIGENCE BOARD

28 MARCH 1968

NOTE: This is the estimate. No futher distribution will be made.

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The Central Intelligence Agency and the intelligence organizations of the Departments of State and Defense, the NSA, the FBI, and the Secret Service

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Vice Adm. Vernon L. Lourance, for the Director Defense

Intelligence Agency 1.

Lt. Gen. Marshall S. Carter, the Director, Mational

Security Agency

Mr. William C. Sullivan, the Assistant Director,

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Mr. Thomas J. Kelley, for the Director, United States

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Abstaining:

Dr. Charles H. Reichardt, for the Assistant General Manager, Atomic Energy Commission, the subject being outside of his jurisdiction.

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CENTRAL INTELLIGENCE AGENCY

28 March 1968

SUBJECT: SNIE 81-68; SECURITY CONDITIONS IN MEXICO CITY

THE PROBLEM

To estimate the likelihood of incidents that would endanger or embarrass Vice President Humphrey during his visit to Mexico City, 31 March-1 April 1968.

CONCLUSION

We believe that the efforts of the Mexican Government and security forces will keep to a minimum the number of potentially embarrassing incidents during Vice President Rumphrey's visit to Mexico City, and that the risk of a dangerous incident will be small. One may not rule out, however, an attempt at violence by a psychopath or famatic.

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DISCUSSION

- 1. President Gustavo Díaz Ordaz places special emphasis on maintaining cordial relations with the US and will receive Vice President Humphrey as an honored guest. Furthermore, Díaz Ordaz will probably take considerable pride in the occasion for the Vice President's visit to Mexico City: the signing by the US of a supplementary protocol to the Treaty of Tlatelolco (1967), which bans nuclear weapons from Latin America, and which was principally initiated by the Mexican Government. 1
- 2. The political situation in Mexico is stable, and security conditions in Mexico City, a metropolis of nearly five million residents, are good. The Institutional Revolutionary Party (PRI) virtually monopolizes Mexican politics, while Diaz Ordaz dominates the party without significant challenge to his authority. Not only is the PRI effective in maintaining stability generally, but it also contributes specifically to security arrangements for visiting dignitaries. It helps insure friendly and peaceful popular receptions by using its supporters to line

Protocol II of the Treaty obligates the states possessing nuclear weapons not to violate the nuclear-free zone created by the 21 Latin American signatory nations.

motorcade routes and to surround the sites of public ceremonies.

Diaz Ordaz has ordered that much the same measures be laid on for the Vice President as were taken during the visits of President Johnson in 1966 and 1967.2

- 3. The Mexican security forces will provide a high degree of personal safety for the Vice President. These forces are politically reliable, tough, and reasonably competent. The police of the Federal District are effective in handling crowds and quashing incipient disorders. They will be assisted by the crack Presidential Guard of the Army. Additional well-trained army troops are stationed in the Federal District and would be available as needed.
- 4. There are a number of anti-US elements in Mexico. These include the small Mexican Communist Party, the larger Popular Socialist Party, and various small extremist groups. Mexico City is also a haven for political exiles from other countries, mostly Communist and leftist extremists but also including anti-Castro Cubans. All these groups, Mexican and foreign, exist largely

^{2/} Diaz Ordaz has kept a personal watch over security forces in the metropolitan area ever since the years (1958-1964) when as Minister of Interior he was in charge of security arrangements for visiting dignituries.

by the sufferance of the government, and fear risking its wrath.

They will be warned not to cause trouble during the Vice President's visit and are unlikely to attempt to organize major disorders.

The Mexican Government maintains surveillance over the activities of most of these groups and would probably have advance warning if any major disorders were planned. Mexican legal procedures do not inhibit the police from detaining as many individuals as the government considers necessary to maintain order on special occasions, and this license will be exercised for the Vice President's visit.

5. Nonetheless, some individuals and small groups, including students not affiliated with extremist organizations, will probably attempt to demonstrate against the Vice President's visit. 3/
This would almost certainly be the case if he were to visit the National Autonomous University of Mexico. Though the issue of US policy in Vietnam is not particularly heated in Mexico, it will probably be the principal focus of protests; we believe that any demonstrators will not be seeking deliberately to endanger the Vice President. Furthermore, the security forces will probably

^{3/} Several small protest demonstrations, all quickly put down, were attempted during President Johnson's 1966 visit.

intercept most demonstrators before they get within sight of the Vice President, and those achieving that objective will almost certainly be removed by the police soon thereafter. With the possible exception of a university audience, we believe there will be very little popular support for demonstrators.

6. In sum, we believe there is little chance of an incident that would endanger the Vice President, and that the number of potentially embarrassing incidents will be small. One may not, however, rule out the possibility of an attempt at violence by some individual, perhaps a psychopath or a fanatic, who could be Mexican, American, or any other nationality.



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APPROVED FOR RELEASE DATE: MAR 2002

STUDENT UNREST TROUBLES MEXICO

Student unrest continues to be a troublesome issue in many parts of Mexico. Disorders have occurred at two provincial universities in the past two weeks, and outbreaks could spread to the capital city.

A clash between opposing factions at the University of Puebla over elections to the university governing board on 10 July resulted in two killed and eight wounded. Classes have been suspended indefinitely.

Democratic Students' Central was involved in the affair.

A student strike at the University of Veracruz--originally undertaken in support of higher salary demands by professors and other university employees--appears to have taken a turn for the worse. Twenty students are reported to be on a hunger strike, and the financial demands far exceed anything the state could afford. The Cuban consul in Veracruz has reportedly provided propaganda material and advised the students on the staging of demonstrations.

have suggested the possibility of disorder at the 90,000-student

SECKET

Page 25

WEEKLY SUMMARY

19 Jul 68

National University in Mexico City. Chronic unrest there and indications that agitators are planning disturbances during the Olympics have already led the government to tighten its controls on the students.

A popular student "cause" could be provided by the ruling party's use of power to prevent the moderate opposition from assuming offices it won in at least

one of the four recent state elections. For example, despite the
government's claims of victory in
Chihuahua, it is widely believed
that the National Action Party was
the real winner in the local elections on 7 July. Eight gubernatorial contests are still pending
this year and it is likely that the
government will continue its extralegal tactics to ensure against
even local setbacks.

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I. THROUGHOUT THE MORNING OF 38 JULY 1968 GROUPS OF STUDENTS,
RANGING IN NUMBERS UP TO SIX HUNCRED, HAVE BEEN OBSERVED IN THE
DOWNTOWN AREA OF MEXICO CITY. SOME GROUPS HAVE BEEN OBSERVED IN
MARCHING FORMATION, CARRYING BANNERS. ALL POLICE POSTS HAVE BEEN
INSTRUCTED TO REPORT IMMEDIATELY THE PRESENCE OF STUDENT GROUPS.
THEY HAVE BEEN TOLD ADDITIONALLY NOT TO CONFRONT STUDENT GROUPS AND
NOT TO ENTER ANY SCHOOLS. RIOT POLICE ARE STATIONED AROUND THE
AMERICAN EMBASSY, AND THEY HAVE REPORTED NO INCIDENTS. ARMY TROOPS.
HAVE SEALED OFF A FOUR BLOCK SQUARE AREA MORTS OF THE ZOCALO.

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AT 1188 HOURS SEVERAL STUDENT GROUPS WERE REPORTED TO BE CREATING DISTUPBANCES, MOST OF WHICH DISCUMBENT STEPLING OF BUSES. ONE @ GROUP OF FIFTY TO SIXTY STUDENTS WAS SEEN CARRYING MOLOTOV COCKTAILS. TWO STUDENTS MAY BEEN ARRESTED.

- 2. GOVERNMENT AUTHORITIES HAVE CLOSED THE NATIONAL AUTONOMOUS UNIVERSITY OF MEXICO (UNAN) AND THE NATIONAL .
 POLYTECHNIC INSTITUTE (IPN).
- UNAM ON 29 JULY, AND IS IN PERMANENT SESSION AT THE LAW SCHOOL.

 THIS COMMITTEE REPRESENTS ALL POLITICAL FACTIONS, FROM THE FAR

 RIGHT TO TROTSKYISTS. THE SCHOOLS OF ECONOMY, PHILOSOPHY AND

 LETTERS AND POLITICAL SCIENCE HAVE DECLARED THEMSELVES ON STRIKE

 ALTHOUGH SOME PHILOSOPHY STUDENT LEADERS HAVE DISAGREED WITH

 THE DECISION, CLAIMING THAT HOST STUDENTS WILL STAY AT HOME.

 AND THAT IT WOULD BE IMPOSSIBLE TO ROUND THEM UP FOR DEMON
 STRATIONS. THE FORMATION OF THE STRIKE COMMITTEE WRESTED

 CONTROL OF STUDENT ACTIVITIES AT UNAM FROM THE COMMUNIST YOUTH

 OF MEXICO (JCH), WHICH HAD DOMINATED THE SITUATION UP TO THAT

 TIME. ALTHOUGH ALL FACTIONS INVOLVED ARE BECOMING INCREASINGLY

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RESTLESS, THOSE WHO ARE ADVOCATING VIOLENT ACTION ARE STILL IN

4. A STUDENT DEMONSTRATION WAS HELD AT UNAM AT 1888 HOURS
ON 29 JULY TO PROTEST AGAINST POLICE ACTION AND TO RALLY SUPPORT
FOR A PLANNED MASS DEMONSTRATION. FROM THE SALTO DEL ACTUATO THE
ZOCALO AT 1788 HOURS ON 31 JULY. APPROXIMATELY FIFTEEN HUNDRED
STUDENTS CONGREGATED. TROTSKYIST SPEAKERS ADDED TWO NEW DEMANDS
TO THE LIST OF THOSE ALREADY PUBLISHED - THAT RESIGNATIONS BE TENDERED BY MEXICO CITY MAYOR ALFONSO CORONA DEL
ROSAL AND MINISTER OF GOVERNMENT LUIS ECHEVERRIA. THESE DEMANDS
WERE LOUDLY APPLAUDED. SIMILARLY APPLAUDED WAS THE ANNOUNCEMENT
THAT NO EFFORT WOULD BE MADE TO OBTAIN A PERMIT FOR THE DEMONSTRATION SCHEDULED FOR 31 JULY. IT WAS STATED THAT ALL UNAM

STUDENT LEADERS WOULD L	EAD THE MARCH TO THE ZOCALO.	
REPORTED THE FOLLOWING	CUBAN OFFICIAL NEWS	N 29
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GOVERNMENT TO RELEASE ALL ARRESTED STUDENTS BY 1766 HOURS ON 31 JULY, GTHERWISE A MASSIVE DEMONSTRATION WILL BE CHANTEED

TO DEMAND THEIR RELEASE.

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Title:	MEXICO CITY SITREP (DELETED)
Abstract:	
Pages:	0002
Pub Date:	7/31/1968
Release Date:	6/12/2002
Keywords:	MEXICO DEMOSTRATIONS STUDENT RIOTS IPN STUDENT MARCH
Case Number:	F-1995-00272
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

APPROVED FOR RELEASE DATE: MAR 2002

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SUBJECT	HEXI	CO CITY	SITREP								
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1. ACCORDING TO PRESS REPORTS ON THE MORNING OF 31 JULY 1968, MEXICO CITY IS RETURNING TO A STATE OF NORMALCY AFTER FOUR DAYS OF STUDENT RIOTING. FEDERAL TROOPS HAVE BEEN WITHDRAWN FROM THE SCENE AND RETURNED TO THEIR BARRACKS. THE DECISION TO WITHDRAW TROOPS APPARENTLY FOLLOWED A MEETING BETWEEN MEXICO CITY MAYOR, ALFONSO CORONA DEL ROSAL, AND JOSE CEBREROS MANJARREZ, PRESIDENT OF THE NATIONAL FEDERATION OF TECHNICAL STUDENTS, REPRESENTING STUDENTS FROM THE NATIONAL POLYTECHNIC INSTITUTE (IPN). CEBPEROS MANJARREZ REPORTEDLY REQUESTED THAT THE TROOPS BE WITHDRAWN AND THAT HE AND OTHER STUDENT LEADERS BE ALLOWED TO ATTEMPT TO RESTORE ORDER WITHOUT



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PRESSURE FROM GOVERNMENT FORCES.

2. A MASS MEETING IS SCHEDULED TO BE KELD AT 1188 HOURS ON 31 JULY AT THE NATIONAL UNIVERSITY (UNAND. INCLUDED IN THE ASERDA FOR THIS MEETING IS DISCUSSION OF A PROPOSAL TO SABOTAGE UNITED

STATES OFFICIAL INSTALLATIONS AND BUSINESS ENTERPRISES.

MOR NING PRESS. ITS PURPOSE, HOWEVER, IS SAID TO BE TO REGISTER A PROTEST FOR THE VIOLATION OF UNIVERSITY AUTONOMY. UNAM RECTOR, JAVIER BARROS SIERRA, WAS REPORTEDLY INVITED TO LEAD THE DEMONSTRATION).

3. AS OF 8980 HOURS, IT IS NOT KNOWN WHETHER STUDENT PLANS TO COMDUCT A MASSIVE DEMONSTRATION ON THE EVENING OF 31 JULY HAVE BEEN ABANDONED.

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(C) PAGE 1 OF 4 PAGE THIS IS AN INFORMATION REPORT, HOT PINALLY CONFIDENTIAL 31 JALY 1968 COUNTRY: MEXICO SE JULY 1965 DOI: . SUBJECT: MEXICO CITY SITREP ACQ: SOURCE:

1. FOLLOWING IS TYPICAL OF INCIDENTS OBSERVED DURING STUDENT DEMONSTRATIONS BETWEEN 1288 AND 1888, 38 JULY 1968: AT INTERSECTION OF LONDRES AND DINAMARCA STREETS STUDENTS STOPPING CARS AND TAKING MONEY FROM OCCUPANTS: TWELVE STUDENTS ARRESTED AT LATIN AMERICAN BUILDING FOR DAMAGING PROPERTY: GROUP OF STUDENTS TEARING UP STREET-CAR TRACKS AT INTERSECTION OF CHAPULTEPEC AND BALDERAS; SIZEABLE FIST FIGHT UNDERWAY AT TORREON AND TEHUANTEPEC STREETS: TWO STUDENTS CARRYING 25 CALIBER PISTOLS ARRESTED AT PREPARATORY SCHOOL NUMBER

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FIVE; STUDENTS BURNING SEVERAL CARS AND TWO BUSES AT INTERSECTION OF GENERAL PRIM AND BUCARELI: TWO BUSES OVERTURNED AT INTERSECTION OF ABRIANAM GONZALEZ AND GENERAL PRIM, WHERE POLICE CALLED FOR REENFORCEMENTS; POLICE AND STUDENTS CLASHED AT HOTEL VERSAILLES, REENFORCEMENTS CALLED. REPORTS SUCH AS THE ABOVE HAVE DIMINISHED
STEADILY BETWEEN THE HOURS 1600-1860.

2. THE ENTRY OF THE ARMY INTO THE NATIONAL AUTONOMOUS
UNIVERSITY OF MEXICO (UMAM) IN THE EARLY MORNING HOURS OF 38 JULY, I
VIOLATION
OF UNIVERSITY AUTONOMY, HAS HAD THE EFFECT OF UNIFYING THE ENTIRE
UNIVERSITY STUDENT BODY IN PROTEST. THOSE WHO HAVE NOT PARTICIPATED HERE OF THE DEMONSTRATIONS ARE NOW READY AND WILLING
TO TAKE PART IN THEM. DOWNLOTE THE CHARGE THAT, UNIVERSITY
AUTONOMY HAS BEEN VIOLATED IS BASED, PRESUMABLY, ON THE PART
THAT PARATROOPERS FORCIBLY ENTERED SEVERAL PREPARATORY SCHOOLS,
WHICH ARE AN INTEGRAL PART OF THE UMAM STRUCTURE, THERE HAVE
SEEN NO REPORTS THAT THE ARMY HAS ENTERED THE UMAM CAMPUS PROPER).
BOTH THE DIRECTOR OF THE FEDERAL SECURITY SERVICE (DFS) AND
THE SECRETARY GENERAL OF UMAM HAVE CONFIRMED THAT MEITHER THE
MEXICAN GOVERNMENT NOR THE UNIVERSITY MANAGEMENT HAS ANY PLANS

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FOR DEALING WITH THE CURRENT PROBLEM OF STUDENT PROTESTS AND

AGITATION.

JULY, WITH REPRESENTATIVES FROM THE MALIONAL POLYTECHNIC IN(1PM)
STITUTE/IN ATTENDANCE. IT WAS AGREED THAT THE PROPOSED MASS.
MARCK BY UNAM/IPM STUDENTS WOULD TAKE PLACE AT 1788 HOURS ON
31 JULY. FOLLOWING THIS MEETING, THE STUDENTS MARCHED TO THE
OFFICE OF UNAM RECTOR, JAVIER BARROS SIERRA, WHO APPEARED REFORE THE STUDENTS AND PERSONALLY LOWERED THE FLAGT TO HALF
MAST, AND STATED THAT HE WAS "WITH THE STUDENTS" INASMUCH AS
THE AUTONOMY OP THE UNIVERSITY HAD BEEN VIOLATED.
BARROS SIERRA INFORMED THE STUDENTS THAT THE UNIVERSITY WOULD

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BE REOPENED ON 31 JULY.

PORTS OF PLANNED DEMONSTRATIONS FOR THE EVENING OF SE JULY).

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FOR THE MASS	DEMONSTRATION	BY MATION	AL UNIVE	RSITY (U	AM> ST	idents,
LED BY THE UN	IVERSITY RECTO	R. WHICH	IS SCHED	ULED TO 1	AKE PLA	LCE
LATER IN THE D	AY. THIS DECI	2109 AITT	BE MADE	BI MEXIC	20 CITT	
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SCHOOLS WILL ORGANIZE AT 1668 HOURS, LEAVE THE UNIVERSITY AT
1798 HOURS VIA UNIVERSITY AVENUE TO CALLE FELIX CUEVA, WHERE
IT IS PLANNED TO PROHOUNCE STUDENT DEMANDS ONCE HORE, INCLUDING
A DEMAND FOR AN IMMEDIATE AUDIENCE WITH PRESIDENT GUSTAVO DIAZ
ORDAZ FOR THE RECTOR, A COMMITTEE OF PROFESSORS, AND POSSIBLY
STUDENT OBSERVERS. MANY STUDENTS ARE TALKING OF MARCHING TO
THE NATIONAL PALACE. THE MAJORITY, HOWEVER, HOPE TO CONTROL
ANY ATTEMPTED ACTS OF VIOLENCE ON THE PART OF THE MARCHERS.
AT THE PRESENT TIME, THE VARIOUS SCHOOLS OF UNAM ARE ALIGNED
APPROXIMATELY AS FOLLOWS:

- A) SUPPORTING THE RECTOR AND ADVOCATING PEACEFUL DEMONSTRATION:
 ARCHITECTURE, CHEMISTRY, VETERINARY
 MEDICINE, COMMERCE, SOCIAL STUDIES, NURSING, MUSIC AND,
 OF MAJOR IMPORTANCE, DELEGATIONS FROM THE PREPARATORY
 SCHOOLS. THESE GROUPS JISH TO RID THE MOVEMENT OF
 PROJOCATEURS AND TO END VIOLENCE.
- BO OPPOSED TO THE RECTOR AND ADVOCATING VIOLENCEL POLITICAL SCIENCES, ECONOMY, PHILOSOPHY AND LETTERS, AND A COMMUNIST FACTION OF THE LAW SCHOOL.

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DENTISTRY.

AT A MEETING BEFORE FIFTEEN HUNDRED STUDENTS IN THE SCHOOL OF PHILOSOPHY AND LETTERS ON 36 JULY, MEMBERS OF THE COMMUNIST YOUTH OF MEXICO (JCM) DENIED RESPONSIBILITY FOR A WIDELY CIRCULATED LEAFLET ATTACKING NATIONAL AUTHORITY. AT ANOTHER ME'TING, A PROFESSOR SPOKE ON BEHALF OF THE UNAM TEACHING STAFF, STATING THAT THE PROFESSORS SUPPORTED THE DEMANDS OF THE STUDENTS FOR GUARANTEES AGAINST FUTURE VIOLATIONS OF UNIVERSITY AUTONOMY, AND THAT IF THESE GUARANTEES WERE NOT FORTHCOMING FROM THE GOVERNMENT THEY ARE PREPARED TO RESIGN "EN MASS".

J. WITH RESPECT TO THE SITUATION AT THE NATIONAL POLYTECHNIC INSTITUTE (IPN), THE NATIONAL FEDERATION OF TECHTICAL STUDENTS (FNET) HAS RECEIVED TELEGRAMS OF SUPPORT FROM POLYTECHNIC SCHOOLS IN THE STATES OF PUEBLA, VERACRUZ, GUANAJUATO, DHIAPAS, QUERETARO AND CHINUANUA. THESE SCHOOLS HAVE OFFERED TO DECLARE STUDENT STRIKES IF IPN DEMANDS ARE NOT MET BY MEXICO CITY AUTHORITIES BY 1838 HOORS ON I AUGUST.

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THESE ARE THE PREVIOUSLY ASSOURCED DEMANDS, INCLUDING THE REMOVAL
OF THE MEXICO CITY POLICE CHIEF AND THE ABOLITION OF THE
RIGT POLICE).

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I. DURING THE NIGHT OF 31 JULY -1 AUGUST 1948, TRE

MOST SIGNIFICANT DEVELOPMENT RELATING TO CURRENT STUDENT

DISTURBANCES HAS BEEN THE DETENTION, AS REPORTED IN THE

MORNING PRESS, OF THE FOLLOWING FIVE MEMBERS OF THE MEXICAN

COMMUNIST PARTY(PCM): FERNANDO GRANADOS CORTES (AKA FERNANDO

CORTES GRANANDOS); GILBERTO RINCON GALLADO MELTIS; ADOLFO MEJIA

GONZALEZ; MARIO HERNANDEZ HERNANDEZ; AND SLAVADOR SAENZ NIEVES.



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2. ACCORDING TO PRESS REPORTS, THESE PERSONS HAVE BEEN DETAINED FOR INVESTIGATION TO DETERMINE THEIR INVOLVEMENT PRINCIPALLY IN THE PUBLICATION AND DISTRIBUTION OF A LEAFLET BEARING THE NAMES OF THE NATIONAL DEMOCRATIC STUDENTS' CENTRAL (CHED) AND THE COMMUNIST YOUTH OF MEXICO, (JON), ADVOCATING OPEN REBELLION AND THE FORMATION OF URBAN GUERRILLA FORCES.

ARRESTS IS PA'I OF A PLAN BY MEXICAN AUTHORITIES TO STRENGTHEN
ITS CASE BY ANY MEANS AT ITS DISPOSAL AGAINST COMMUNIST ELEMENTS AS
THE INSTIGATORS OF THE RECENT RIDTS.

3. REGARDING THE MASS DEMONSTRATION SCHEDULED FOR

1 AUGUST BY STUDENTS OF UNAM, LED BY THE RECTOR, ALTHOUGH

1 TIME OF STARTING HAS NOT BEEN DETERMINED DEFINITELY,



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MOST STUDENTS BELIEVE THAT IT VILL JAKE PLACE AT 1508 HOURS, STARTING FROM THE UNIVERSITY AND PRECEDING TO THE MONUMENT OF THE REVOLUTION IN MEXICO CITY. THE RECTOR HAS STATED THAT HE WILL LEADTHE STUDENTS ON COMBITION THAT ORDER BE MAINTAINED AND THAT THE DECLARED PRUPOSE OF THE DEMONSTRATION BE THE PRESERVATION OF UNAM AUTOMONY. PREPARATORY SCHOOLS OF THE NATIONAL POLYTECHNIC INSTITUTE (IPN), AND POSSIBLY TEACHERS' COLLEGES, WILL TAKE PART IN THE DEMONSTRATION.

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WHERE SEVERAL SCHOOLS ARE LOCATED, SOLDIERS WERE CHALLENGING ALL WHO APPROACHED, DEMANDING IDENTIFICATION, AND ESCORTING THOSE PROPERLY IDENTIFIED TO THEIR DOORS. ONLY SOLDIERS, AND NO POLICE-MEN HAVE BEEN OBSERVED IN THESE AREAS DURING THE "AST HOUR.

5. THERE IS AN EFFORT AMONG TROTSKYTST STUDENTS AT THE SCHOOLS OF ECONOMICS POLITICAL SCIENCE AND PHILOSOPHY AT UNAM TO ORGANIZE " SHOCT TROOPS" TO DEFEND THE UNIVERSITY IS CASE OF FURTHER VIOLATIONS OF ITS AUTCHONY. THE TROTSKYISTS ARE ALSO TALKING ABOUT SENDING SMALL GROUPS OF STUDENTS TO FACTORIES IN THE MEXICO CITY AREA IN AN ATTEMPT TO GET WORKERS. SUPPORT FOR STUDENT DEMANDS AND CAUSES.

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FAST 2 AUGUST 1968

COUNTRY: MEXICO

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SUBJECT: MEXICO CITY SITREP

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SOURCE:

I. A "GENERAL ASSEMBLY" HAS BEEN CALLED FOR 1188 HOURS
ON 3 AUGUST 1968 AT THE NATIONAL POLYTECHNIC INSTITUTE (1PN)
FOR THE PURPOSE OF ORGANIZING A MARCH, TO BEGIN AT 1588 HOURS,
TO THE MONIMENT TO THE REVOLUTION IN DOWNTOWN MEXICO CITY.
NO PERMIT HAS BEEN RECEIVED TO CONDUCT THIS MARCH.

2. STUDENTS AT IPN ARE FURTHER AGITATED BECAUSE OF STUDENT ARRESTS WHICH TOOK PLACE ON THE HIGHT OF 1 AUGUST. SOME STUDENTS WERE ARRESTED DURING A DEMONSTRATION AT THE

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FOR THROWING ROCKS AT THE HEAD QUARTERS OF THE INSTITUTIONAL REVOLUTIONARY PARTY (PRI). THE NATIONAL PEDERATION OF TECHNICAL STUDENTS (FRET) AT 1P2 IS TRYING TO REGAIN CONTROL OVER THE STUDENTS, AND IS ADVOCATING "CONTINUATION OF THE STRUGGLE" BY THE STUDENTS AND IS PRESSING FOR THE GOVERNMENT TO MEET STUDENT DEMANDS, INCLUDING THE DISHISSAL OF POLICE OFFICIALS. THE FRET HAS RECEIVED TELEGRAMS OF SUPPORT FROM SCHOOLS AND UNIVERSITIES IN THE STATES OF PUEBLA, GUANAJUATO, QUERETARO, VERACRUE, MICHOATAR, CHIAPAS, TABASCO AND TAMAULIPAS.

- 3. THE FIRST TANGIBLE EVIDENCE OF ANTI-AMERICAN SENTIMENT DURING THE STUDENT DEMONSTRATIONS WAS OBSERVED ON THE EVENING OF I AUGUST DURING THE MASSIVE DEMONSTRATION BY STUDENTS AT THE NATIONAL UNIVERSITY (UNAM). AHONG THE BANNERS CARRIED BY STUDENTS WAS ONE WHICH READ: "DEATH TO IMPERIALISM AND TO THE YANKEES".
- A. THE NATIONAL UNION OF REVOLUTIONARY STUDENTS (UNER)
 AT UNAM HAS PRODUCED A LEAFLET DIRECTED TO FACTORY WORKERS,
 CALLING FOR A TWENTY-FOUR HOUR GENERAL STRIKE TO PROTEST

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AGAINST MILITARY INTERVENTION IN THE SCHOOLS. THE LEAFLET
ALSO INVITES M.L DELEGATES OF FIGHT COMMITTEES (COMITES DE
LUCHA), REVOLUTIONARY ORGANIZATIONS AND WORKERS TO ATTEND
A MEETING AT 1988 HOURS ON 3 AUGUST AT THE UNAM SCHOOL OF
ECONOMICS TO PLAN FUTURE ACTION.

COMMENT: UNLESS THERE ARE SIGNIFICANT DEVELOPMENTS
IN THE INTERIM, THE NEXT MEXICO CITY SITUATION REPORT WILL BE
ISSUED AT 1266 HOURS ON 3 AUGUST).

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		O CITY SITRE	7			7

ON 5 AUGUST 1968, STUDENTS OF THE NATIONAL POLYTECHNIC INSTITUTE
(IPE), SUPPORTED BY GROUPS FROM THE NATIONAL UNIVERSITY (UNAM)

AND THE NATIONAL AGRICULTURAL SCHOOL, ISSUED ON ULTINATUM THAT

THE MEXICAN GOVERNMENT RESPOND FAVORABLY TO STUDENTS' DEMANDS

WITHIN SEVENTY-TWO HOURS. ACCORDING TO STUDENT LEADERS, IF THEIR

DEMANDS ARE NOT SATISFIED WITHIN THAT TIME, THEY WILL PROMOTE A

NATION-WIDE STUDENT STRIKE, TO BE JOINED LATER BY TEACHERS AND,

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HERE ALTE SESSONS 9 graphic revented the course to expense the expense leading the properties. - Trinally, to include workers and peasants. The student teabers "ARROUNCED THAT DURING THE SEVERTY-IVE HOUR INTERVAL THEY VILL "REGREAUTE THEIR "CADRES" AND PREPARE A PROGRAM OF ACTION ON THE " ATTOMAL LEVEL. and presented that their 2. THE QUESTION OF THE GOVERNMENT'S RESPONSE TO STUDENT DEMANDS IS NOW IN THE HANDS OF PRESIDENT GUSTAVO DIAZ ORDAZ, WHO WILL MAKE THE FINAL DECISIONS. 3. THE "PROFESSORS" COORDINATING COMMITTEE" AT IPH MAS BEEN TAKES OVER BY DOCTOR FAUSTS TREJO FUENTES, AND HAS BEEN REMAMED "COMISSION OF POLYTECHNIC PROFESSORS FOR DEMOCRATIC LIBERTIES." THIS COPPLISSION HAS ANNOUNCED THAT THE IPM PROFESSORS ARE SOLIDLY BERIND THE STUDENTS' DERANDS INCLUDING THE RELEASE OF ALL (NOT .. JUST STUDENT) POLITICAL PRISMERS.

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COMMENT: TREJO FUENTES IS EXTREMELY
ACTIVE IN LEFTIST/COMMUNIST CIRCLES. HE IS A MEMBER OF THE
MEXICAN COMMITTEE OF SOLIDARITY WITH VIETNAM WHERE, ON 21 OCTOBER
1967, HE PRAISED ERNESTO "CHE" G'IEVARA AS THE " GFEATEST HERO OF
THE MODERN ERA." HE HAS OFTEN BEEN REPORTED TO BE A MEMBER OF
THE MEXICAN COMMUNIST PARTY (PCN),

TREJO FUENTES HAD NOT BEEN ACCEPTED BY

THE PARTY BECAUSE HE 'JAS "TOO RADICAL.")

A. AND THER "COMMISSION" HAS BEEN FORMED AT IPN UNDER THE DIRECTION OF PROFESSOR ELI DE GORTARI TO CONDUCT AN INVESTIGATION MID THE "DISAPPEARANCE" OF THIRTY STUDENTS SINCE 26 JULY.

COMMENT: GORTARI, A FORMER

RECTOR OF THE UNIVERSITY OF HORELIA, ALSO HAS AN EXTENSIVE CON-HUNIST BACKGROUND. HE ALSO IS AN OFFICER OF THE MEXICAN CONHITTEE

O F SOLIDARITY WITH VIETNAM.)

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PAGE 1 OF 3

PAGE

I. EXCEPT FOR AN UNCONFIRMED REPORT OF A PLANNED DEMONSTRATION
TO BE HELD AT THE MAILONAL POLYTECHNIC INSTITUTE (IPM)

SOME TIME DURING THE DAY OF 2 AUGUST 1968, THERE ARE NO
INDICATIONS THAT FURTHER ORGANIZED STUDENT DEMONSTRATIONS ARE
PLANNED IN THE IMMEDIATE FUTURE.

2. AT THE MATIONAL UNIVERSITY (UNAM), STUDENTS AT THE SCHOOLS OF POLITICAL SCIENCE, ECONOMICS, LAW AND PHILOSOPHY AND LETTERS PLAN TO CONTINUE HOLDING MEETINGS ON 2 AUGUST.

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THESE GROUPS ARE PLANNING TO FORM "BRIGADES" TO BE SENT OUT TO VISIT SOCIAL GROUPS, WORKER O'GANIZATIONS AND PACTORIES TO EXPLAIN THEIR POSITION AND "C MUSTER SUPPORT FOR FUTURE DEMONSTRATIONS. THEY PLAN TO SUSMIT TO THE UNAM RECTOR A PETITION CONTAINING THE FOLLOWING DEMANDS:

- A. ABOLITION OF THE RIOT POLICE (GRANADEROS)
- B. DISMISSAL OF THE MEXICO CITY CHIEF OF POLICE
 AND HIS ASSISTANTS.
 - C. REFORM OF POLICE RESILATIONS.
 - D. INDEMNITY TO FAMILIES OF STUDENTS AND TEACHERS ...
 - E. RESPECT FOR UNIVERSITY AUTONOMY.
 - F. IMMEDIATE RELEASE OF ALL STUDENTS AND TEACHERS
 ARRESTED DURING DISTURBANCES, PLUS DESTRUCTION OF
 THEIR POLICE FILES.
 - Q. OBJECTIVE REPORTING BY THE PRESS OF STUDENT
 ACTIVITIES AND DEMANDS, AND CESSATION OF GOVERNMENT CENSOREH.F.
 RADICAL ELEMENIS AT THE ABOVE SCHOOLS STATE THAT FOR THE PRESENT
 THEIR EFFORTS HAVE BEEN STEPHED BY THE BOVERNMENT; HOWEVER, THEY
 PLAN TO REORGANIZE AND BUILD FOR CONTINUED AGITATION, TO CULMINATE.

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SOME TIME WITHIN THE NEXT THREE MONTHS.

- 3. AT A MEETING AT IPH ON I AUGUST, STUDENTS AND PROFESSORS
 DISAVONED THE MATIONAL FEDERATION OF TECHNICAL STUDENTS (FMEET)
 AS THE REPRESENTATIVE VOICE OF IPH STUDENTS.
- A. A STUDENT MANED JORGE PINA PALACIO WAS IN THE VICINITY
 OF PREPARATORY SCHOOL SUMBER FIVE CA 29 JULY WHEN IT WAS ATTACKED
 BY ARMY TROOPS. AFTER A BAZOOKA WAS FIRED IN ORDER TO
 BREAK OPEN THE DOORS TO THE SCHOOL, PINA ENTERED THE BUILDING
 TO SEARCH FOR HIS BROTHER, AND DISCOVERED THAT HE HAD BEEN
 KILLED. TROOPS PUSHED PINA OUT OF THE BUILDING AND TOOK HIS
 BROTHER'S BODY AWAY IN AN AMBULANCE. AS OF 2 AUGUST THE FAMILY
 WAS UNABLE TO DETERMINE WHAT HAPPENED TO THE BODY.

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STUDENTS STAGE MAJOR DISORDERS IN MEXICO

The disorders that began in Mexico City on 26 July are a classic example of the Communists' ability to divert a peaceful demonstration into a major riot. Technical students protesting police intervention in a student problem several days previously were agitated by Communist youths out celebrating the Castro revolution. The result was a wild confrontation with police during which many injuries and much property damage occurred.

Student zeal to continue the campaign against police brutality and authority in general erupted into a second, more serious, and apparently spontaneous manifestation early on 30 July. Harsh police methods designed to break up a student fight apparently precipitated a general rampage of secondary school students that soon became uncontrollable. The federal paratroopers who were called in to restore order roughed up several hundred youths and broke into universityconnected schools, thereby violating university autonomy.

Mounting student grievances over police treatment in the current crisis are aggravating the poor relationship between the students and the government. The Diaz Ordaz administration has been confronted with a continuing series of student strikes over a variety of local issues for the past three years. Demonstrations of sympathy and support for their student comrades in Mexico City by provincial youth groups may preclude an early solution to the present situation. Two students are reported dead in the Mexican Gulf state of Tabasco in the wake of a student-police fray, and student rioting has occurred in Jalapa, the capital of Veracruz.

The administration has made good on Diaz Ordaz' warning several weeks ago to leading Communists that the government would hold them culpable for any disruption of order prior to or during the Olympics. The government's immediate response to the first outbreak on the 26th, which was communistincited, was to arrest a number of prominent Communists.

that its youth groups would create disturbances. Although the government claims to have solid evidence that the Communist Party engineered the fracas on 26 July and reportedly has indications of Soviet Embassy complicity, it is unlikely that the Soviets would so undermine their carefully nurtured good relations with the Mexicans.



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- 1. ONLY MINOR STUDENT DISTURBANCES WERE REPORTED. DURING THE EVENING OF 1 AUGUST 1968 IN MEXICO CITY, AND THESE APPEAR TO HAVE ENDED BEFORE HIDNIGHT. AS OF 8988 HOURS ON 2 AUGUST THERE ARE NO REPORTS OF STUDENT ACTIVITY OR PLANS FOR FURTHER DEMONSTRATIONS.
- 2. MEXICAN COMMUNIST PARTY (PCM) OFFICIALS, AT A MEETING ON 2 AUGUST , DECLARED A STATE OF EMERGENCY TO EXIST FOR THE PARTY, AND AGREED THAT CENTRAL COMMITTEE



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MEMBERS SHOULD STATTER AND TAKE REFUSE IN VARIOUS PARTS

OF THE COUNTRY. ARMOUDD HARTISEZ VERDUGO AND ALEJO MEMBEZ

GARCIA WERE TO GO TO PUEBLE; MANUEL TERRAZAS GUERRERO AND

ANTONIO MORIN RODRIGUEZ WERE TO GO TO GUERNAVACA, AND JOSE ENCARP
ACION PEREZ SAYTAN WAS TO GO TO OAXACA. IT WAS AGREED ALSO THAT ALL

PARTY ACTIVITY IN THE FEDERAL DISTRICT WOULD BE SUSPENDED UNTIL

FURTHER NOTICE.

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	TECHNIC INSTITUTE (IPM) STIDENTS WERE ENERAL ASSEMBLY SCHEDILED TO BEGIN AT
	1915 HOURS ABOUT 198 TO 288 STUDENTS HAD
ASSEMBLED, WITH MORE ARRIVE	MG. THERE IS SOME TALK ABOUT A DEMONSTRA-

2. CLASSES AT IPH REMAIN TEMPORARILY SUSPENDED. LEADERS OF
THE MAI IONAL FEDERATION OF TECHNICAL STUDENTS (FRET) ARE STILL
TRYING TO REASSUME CONTROL OF THE STUDENT BODY. THE FRET HAS CALLED
FOR A SERIES OF MEETINGS ON 3 AUGUST WITH REPRESENTATIVES OF ALL

MENSMER AND PHOTOGRAPHERS WERE ON THE SCENE.

TION OR MARCH AFTER THE END OF THE GENERAL ASSEMBLY. APPROXIMATELY 28



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STUDENT GROUPS AND IPM SCHOOLS TO THY TO REGRESANIZE THE COURSE OF ACTION.

3. ON 2 AUGUST WALL POSTERS APPEARED IN THE FOUR SCHOOLS OF THE MATIONAL AUTONOMOUS UNIVERSITY OF MEXICO (UMAN) IN WHICH THE TROTSKYISTS AND RADICALS ARE MOST ACTIVE: PHILOSOPHY AND LETTERS, LAW, POLITICAL SCIENCE, AND ECOBOMICS. THE POSTERS PLACE THE BLAME FOR THE BRUTALITY AND REPRESSION OF THE POLICE AND HELITARY DUSING THE PAST WEEK ON ALFONSO CORONA DEL ROSAL, MAYOR OF MEXICO CITY, AND LUIS ECHEVERTA ALVAREZ, MINISTER OF GOVERNMENT (GOBERNACION). AT 1838 HOURS ON 2 AUGUST STUDENTS FROM THE FOUR SCHOOLS STARTED BORFIRES IN FRONT OF THE UMAN RECTOR'S OFFICE. LOCAL NEVSPAPERS WERE BURNED, SYNBOLIZING STUDENT DISSATISFACTION WITH THE "SLANTED" PRESS COVERAGE OF THE WEEK'S HAPPENINGS AND WITH ALLEGED GOVERNMENT CENSORSHIP AND CONTROL OF THE PRESS. SOME STUDENTS AT THESE FOUR SCHOOLS ARE TRYING TO ORGANIZE ANOTHER MARCH FOR 6 AUGUST, BUT THERE SEEMS TO BE VERY LITTLE ENTHUSIASM, INSIDE AND PARTICULARLY OUTSIDE OF THESE SCHOOLS, TO PARTICIPALE.

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was 3 or 3 mass CONFIDENTIAL 4. THE "COORDINATING COMMITTEE OF THE SEMERAL STRIKE HOVEHENT" AT THE ZACATERCO UNIT OF IPH HAS ANNOUNCED THAT A RALLY WILL BE HELD ON 5 AUBUST. WHICH STUDENTS OF THE CHAPINGO AGRICULTURAL SCHOOL WILL BE INVITED TO ATTEND. THE ZACATENCO PROFESSIONAL UNIT CONTINUES ON STRIKE. UNAM STUDENT GROUPS HELD TWO RALLIES AT THE UNIVERSITY CITY ON 2 AUGUST, AT WHICH THEY CALLED THE DEMONSTRATION LED BY THE UMAN RECTOR THE PREVIOUS DAY AN "OFFICIAL FARCE." DISSEM: STATE ARMY MAVY AIR FBI CINCSO. REPORT CLASS CONFIDENTIAL

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AS OF 1206 HOURS ON 7 AUGUST, THE FOLLOWING SCHOOLS OF THE BATIONAL UNIVERSITY (UMAN) HAD DECLARED THEMSELVES ON STRIKE M SUPPORT OF THE DEHANDS HADE ON THE GOVERNMENT BY STUDENTS OF THE NATIONAL POLYTECHNIC INSTITUTE (IPN): PHILOSOPHY AND LETTERS: LAW. ECONOMICS: POLITICAL AND SOCIAL SCIENCES: SCIENCES: ARCHI-TECTURE: #IGHT PREPARATORY SCHOOLS TWO, THREE, SIX AND SEVEN, AND DAY PREPARATORY SCHOOLS SIX AND NINE. THIS STRIKE ACTIONIS COMPLETELY COMMUNIST INSPIRED AND LED. THE COMMUNISTS. HOWEVER. HAVE RESORTED TO A VERY CLEVER TACTIC: HOME OF THEIR LEADERS IS APPEARING BEFORE THE STUDENTS. INSTEAD, THEY ARE SENDING NUMBERS OF THEIR GROUPS TO SHOUT "FUERA GRILLOS" ("GRILLOS" IS THE TERM APPLIED TO THE ELECTED STUDENT LEADERS OF WHATEVER POLITICAL PERSUASION.) THE STUDENTS LIKE THIS SLOGAN, AND TOOK IT UP IM-MEDIATELY, WITH THE RESULT THAT NOW E OF THE ELECTED STUDENT LEADERS, INCLUDING THE COMMUNIST ONES, IS ALLOWED TO SPEAK AT MEETINGS. BUT IS WHISTLED DOWN. TO CARRY OUT THEIR CURRENT MOGRAM, THE COMMUNIS ARE USING CELLS, WHICH THEY CALL "GOLPES." IN EACH OF THE SCHOOLS. IN THE LAW FACULTY THEY DO NOT MEED THE "GOLPE" BECAUSE THER THEY HAVE THE NATIONAL DEMOCRATIC STUDENTS"

CENTRAL (CHED) AND THE PROGRESSIVE STUDENT PARTY (PEP).



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5. CECELIA SOTO BLANCO, MEMBER OF THE CHED, THE PEP AND THE COMMUNIST YOUTH OF MEXICO ("CH), APPEARS TO BE HANAGING THE COMMUNIST EFFORT FOR THE GREATER PART, BUT SHE TOO IS REMAINING IN THE BACKGROUND BECAUSE SHE ALSO IS A "GRILLO." SHE STATED ON T AUGUST THAT THE CURRENT COMMUNIST EFFORT IS TO CULMINATE A MASSIVE DEMONSTRATION TO BE HELD ON 9 AUGUST AT 1800 HOURS. SHE SAID SHE WAS NOT YET CERTAIN WHETHER IT WOULD TAKE PLACE AT THE ZOCALO, AT THE INDEPENDENCE HOW UNENT (NEAR THE AMERICAN EMBASSY), OR AT SOME OTHER LOCATION.

4. THE RESULT OF THIS COMMUNIST TACTIC OF SILENCING THE STUDENT LEADERS HEARS THAT ALL NEW FACE'S ARE APPEARING ON THE COMMUNIST SCENE AND THEIR CADRES ARE COMPLETELY NEW. IN THE MEANTIME, THE ELECTED STUDENT LEADERS FIND THEMSELVES POWERLESS TO MOVE SINCE THE STUDENTS WHISTLE THEM DOWN IN EVERY MEETING. ONLY SOME THREE HUNDRED FIFTY STUDENTS ATTEMDED THE MEETING IN THE LAW FACULTY AT WHICH THE STRIKE WAS DECLARED; SOME TWENTY AGITATORS HAD THE MEETING IN HAND. THERE IS NO LOYALTY AMONG THE STUDENTS TO THEIR ELECTED LEADERS SO, FOR THE PHESENT. THE COMMUNISTS HAVE A FREE



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FIELD.

US ON E AUGUST, DR. ERBESTO FLORES ZAVALA, DIRECTOR OF THE USAM LAW FACULTY AND A FINANCIAL EXPERT AT USAM, MADE THE FOL-LOWING REMARKS TO HIS CLASS: THAT RECENT DISTURBANCES IN FRANCE HAS CAUSED THAT COUNTRY GREAT LOSSES: FICOME FROM TOURISM HAD DROPPED SHARPLY AND THE FRENCH FRANC HAD NOT RECOVERED STABILITY AS A RESULT. FLORES ZAVALA OF INED THAT THE FRENCH DISTURBANCES HIGHT HAVE BEEN PROVOKED BY THE UNITED STATES TO OBTAIN REVENGE. HE CONTINUED STATING THAT IN MEXICO STUDENT DISTURBANCES MIGHT ALSO CAUSE A LOSS OF TOURIST TRADE AND LEAD TO THE FAILURE OF THE OLYMPIC GAMES FROM A FINANCIAL STANDPOINT. SHOULD THIS OCCUR, HE SAID, HE THOUGHT THE MEXICAN PESO WOULD BE DEVALUED AFTER THE OLYMPIC GAMES.

6. WITH RESPECT TO STUDENT DEMANDS, THE "COMITES DE LUCHA,"
WHICH HAVE BEEN FORMED IN ALL UNAN SCHOOLS BY THE JCH, ARE ASKING
INDEMNIFICATION OF ONE MILLION PESOSCU.S. EIGHTY THOUSAND DOLLARS)
FOR EACH STUDENT KILLED DURING THE RECENT RIOTS.— ON 6 AUGUST,
POSTERS APPEARED ON THE UNAN CAMPUS STATING THAT "MARXIST PROFESSORS" HAD ARMS TO DISTRIBUTE TO STUDENTS "TO DEFEND THEIR.—

CAUSE."



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1. * MEXICAN GOVERNMENT OFFICIALS ANTICIPATE THAT 9 AUGUST 1968 VILL BE THE HOST CRITICAL DAY THUS FOR EXPERIENCED IN THE CURRENT WAVE OF STUDENT UNREST IN MEXICO CITY. A MASSIVE DEMONSTRATION IS PLANNED BY STUDENTS OF THE NATIONAL UNIVERSITY (UNAN), THE NATIONAL POLYTECHNIC INSTITUTE (IPN) AND THEIR ASSOCIATED SCHOOLS. THE STUDENTS PLAN TO BREAK UP INTO SMALL

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GROUPS OF EIGHT OR TEN PERSONS EACH, EITHER LEFORE OR AFTER
THEIR MARCH AND, ARMED WITH HOLSTOV COCKTAILS, ROCKS, CLUBS,
EIG., PLAN TO ASSAULT PRIVATE SCHOOLS WHICH HAVE NOT CLOSED
IN SYMPATHY WITH THEIR DEMANDS, "UNFRIENDLY" EMBASSIES, AND
HOMES OF PRIVATE CITIZENS WHO ARE NOT "SYMPATHETIC".

2. GOVERNMENT OFFICIALS ARE PARTICULARLY CONCERNED OVER THE FACT THAT THE DEMONSTRATION OF 9 AUGUST IS TO BE LED BY A GROUP FO FIFTY PARENTS CARRYING PLACARDS READING: "MY SON HAS JEEN KILLED. I WANT HIS BODY SO THAT I MAY GIVE HIM A DECENT BURIAL". THESE ARE ALLEGEDLY PARENTS OF STUDENTS WHO WERE KILLED DURING THE RECENT RIOTS.

A DECISION WAS REACHED

TO CANCEL THE FOOTBALL MATCH SCHEDULED TO TAKE PLACE ON SUNDAY, II AUGUST, AT THE AZTEC STADIUM, BETWEEN THE UNITED STATES TEAMS, PHILADELPHIA EAGLES AND DETRIOIT LIGHS. THIS DECISION WAS TAKEN AS A PRECAUTIONARY HEASURE IN ANTICIPATION OF CONTINUING STUDENT DISTURBANCES.

4. AS OF 1800 HOURS CH & AUGUST, UNIVERSITY AND POLYTECHNIC

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SCHOOL STHEETS WERE REPORTED TO BE HOLDING STRATEGY HEETINGS.

5. COMMENT:

THE OFFICE OF THE PRESIDENCY IS

IN A STATE OF CONSIDERABLE AGITATION SECAUSE OF ANTICIPATED -

FURTHER DISTURBANCES).

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	ESSORS" COORDINATING			
THIS COMMISSION	POLYTECHNIC PROPESSO HAS ANNOUNCED THAT ENTS' DENANDS INCLUD	THE IPW PROFES	SORS ARE SOL	IDLY
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Title:	MEXICAN STUDENTS THREATEN TO PROLONG CRISIS
Abstract:	
Pages:	0001
Pub Date:	8/9/1968
Release Date:	6/12/2002
Keywords:	POLITICAL PRISONERS MEXICAN POLICE BRUTALITY CARDENAS LAZARO ORDAZ DIAZ
Case Number:	F-1995-00272
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

APPROVED FOR RELEASE DATE: MAR 2002

MEXICAN STUDENTS THREATEN TO PROLONG CRISIS

Threats by Mexican students to call a nationwide strike if their demands are not met have intensified government efforts to calm the situation, at least through the Olympics this fall.

The broad student support generated by the issues of university autonomy and police brutality, the apparent predisposition of many youths to resort to violence, and the fact that the current agitation has not even touched upon many of the grievances aired in other recent riots, indicate a highly volatile situation. The government may, therefore, figure it prudent to go further than usual in acceding to such demands as firing the police chief and indemnifying injured students.

President Diaz Ordaz may decide, however, that a more dramatic tactic is needed in view of expanding student demands. Together with their immediate grievances, the students are now calling for the release of all political prisoners. This issue won them the support of

leftist former president Lazaro Cardenas,

other sensitive area has been reopened with the formation of a teachers' committee to investigate the alleged disappearance of 30 students.

The government's strategy over the past week--temporizing concessions mixed with arm-twisting and encouraging university rectors to make common cause with the students in order to exert a moderating influence--was effective. Two mass student marches took place without disorder, and there has been no significant violence this week.

The pressure on Diaz Ordaz to reconcile the student demands and to restore the government's prestige is particularly intense because of Mexico's desire to project a good image internationally. The preparations for the Olympics in October have involved a tremendous investment, which the government expects to pay off in prestige as well as in enlarged tourist receipts.



Title:	MEXICO CITY SITREP (DELETED)
Abstract:	
Pages:	0005
Pub Date:	8/10/1968
Release Date:	6/19/2002
Keywords:	MEXICO DEMOSTRATIONS STUDENT RIOTS IPN STUDENT MARCH
Case Number:	F-1995-00272
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

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CONFEDENTIAL

POLYTECHEIC INSTITUTE (IPH) IN LEADING A DEMONSTRATION ON 13
AUGUST . THEY INTEND TO SEEK A PERMIT FROM CITY AUTHORITIES
TO HOLD THIS DEMONSTRATION. UNAM PROFESSORS HAVE BEEN ASSISTING
STUDENTS IN PREPARATIONS FOR THE DEMONSTRATION, DOMATING MONEY,
ASSISTING IN FUND-RAISING PLANS AND OTHERWISE PROVIDING SUPPORT .
STUDENT BRIGADES HAVE BEEN ORGANIZED TO VISIT SECONDARY AND
NORMAL SCHOOLS TO SEEK THEIR SUPPORT, AND OTHER BRIGADES HAVE
BEEN VISITING FACTORIES IN MEXICO CITY. THUS FAR THE STUDENTS
HAVE SUCCEEDED IN OBTAINING PLEDGES OF MORAL SUPPORT FROM
VORKERS.

3. AT A HEETING AT UNAM ON THE EVENING OF 8 AUGUST,
ATTENDED BY THREE THOUSAND STUDENTS AND PROFESSORS, IT WAS
AGREED THAT CLASSES AT EIGHT OF THE UNAM SCHOOLS AND
AT THREE PREPARATORY SCHOOLS WOULD BE SUSPENDED UNTIL THE
GOVERNMENT MEETS ALL STUDENT DEMANDS, AND ALSO THAT THERE
SHOULD BE A BOYCOIT OF THE OLYMPIC GAMES AND A NATION-VIDE STUDENT STRING

IF THESE DEMANDS ARE NOT HET. STUDENTS AT IPN ARE ATTEMPTING TO GATHER EVIDENCE THAT THE GOVERNMENT HAS DISPOSED OF BODIES OF STUDENTS KILLED

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BODIES OF STUDENTS WERE CREMATED AT THE MILITARY HOSPITAL.

A. STUDENTS AT IPN HAVE PICKED UP AND ARE EMBELLISHING STORIES BY LEFTIST WRITERS WHICH ARE APPEARING IN NEWSPAPERS AND MAGIAZINES CHARGING THAT THE U. S. CENTRAL INTELLIGENCE AGENCY PROVOKED THE RECENT RIOTS. STORIES ARE CIRCULATING THAT UNITED STATES COMPANIES, ALONG WITH THE U.S. GOVERNMENT, HAVE BEEN ENCOURAGING STUDENTS TO REVOLT, THAT THEY HAVE PROVIDED ARMS AND EVEN HALLUCINATORY DRUGS TO CHILDREN. THERE ARE RUNGRS AT IPN TO THE EFFECT THAT A LARGE DEMONSTRATION WILL BE HELD TO DEMAND AN INVESTIGATION OF U.S. INTERVENTION.

(PORTION (ISSING)

3.

GOVERNMENT IS AWARE THAT THERE ARE DIVISIONS AMONG THE VARIOUS STUDENT FACTIONS, AND IT IS ACTIVELY INVOLVED IN CREATING FURTHER DIVISION SO THAT NO REALLY UNIFIED LEADERSHIP GROUP



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EMERGES. THE GOVERNMENT CELIEVES THAT THERE IS NO FOPULAR
SUPPORT FOR THE STUDENTS, AND IS HOPING THAT, AS IN THE PAST,
WHEN THE STUDENTS DISCOVER THAT SUCH SUPPORT IS LACKING, THEY
WILL ABANDON THE STRUGGLE. CHARGES THAT THE BODIES
OF STUDENTS HAVE BEEN CREMATED AT THE MILITARY HOSPITAL ARE
NOT TRUE; THERE IS NO CREMATORIUM AT THE HILITARY HOSPITAL.
TO DATE, NOT ONE SPECIFIC PARENT HAS FILED A PROTEST OR HAS COMPLAINED
ABOUT A SUTDENT KILLED OR UNACCOUNTED FOR AS A RESULT OF THE
RECENT RIOTS.

THE AMERICAN PROFESSIONAL FOOTBALL GAME

SCHEDULED FOR 11 AUGUST THAT HE DECIDED TO CAMCEL THE EVENT.

KNOWN COMMUNIST AGIATORS HAD PURCHASED TICKETS FOR THE GAME,

AND OTHER AGIATORS WERE GIVEN HOMEY BY COMMUNISTS TO BUY

THEIR TICKETS. SOME OF THE LATTER GENERALLY DO NOT HAVE (PORTION MISSING)

THESE AGITATORS AND THEIR " HIRED HANDS" INTENDED TO CAUSE

DISTURBANCES, TO START FIGHTS, TO THROW ROCKS AND GENERALLY



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Title:	MEXICO CITY SITREP (DELETED)
Abstract:	
Pages:	0002
Pub Date:	8/13/1968
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Case Number:	F-1995-00272
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JUBLECT: MEXICO CITY SITREP

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THAT THE MEXT STIDENT DEMONSTRATION PLANNED FOR MEXICO CITY VILL
BEGIN AT 1700 HOURS ON 13 AUGUST 1968. THE FINAL DESTINATION OF
THE STUDENT MARCH IS TO BE THE HAIN CITY SOURCE (ZOCALO). NO
MEPORTS HAVE BEEN RECEIVED THAT AN OFFICIAL PERMIT HAS BEEN
GRANTED FOR THIS DEMONSTRATION OR, IN FACT, THAT ONE HAS EVEN
FEEN REQUESTED. THE NATIONAL POLYTECHNIC INSTITUTE (IPH) STILL
APPEARS TO BE THE PRINCIPAL FOCUS OF STUDENT DISCONTENT. BUT
EVEN AT THAT SCHOOL THERE EXIST MANY FACTIONS VYING FOR CONTROL.
THE SAME SITUATION OPTAINS AT IM. NATIONAL UNIVERSITY (UNAM),
AND ALTHOUGH UMAN STUDENTS AND OTHERS FROM PREPARATORY SCHOOLS

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AND MORNAL SCHOOLS WILL POURTLESS PARTICIPATE IN THE DEMONSTRATION,
IT IS UNLIKELY THAT UNIVERSITY STUDENT REPRESENTATION WILL EQUAL
THAT OF IPN. RADICAL ELEMENTS AT BOTH INSTITUTIONS CONTINUE
THEIR AGITATIONAL EFFORTS; THUS THERE REHAINS THE POSSIBILITY
THAT THEY WILL TAKE ADVANTAGE OF AN OTHERWISE PEACEFUL DEMONSTRATION
TO INCITE STUDENTS TO MORE AGGRESSIVE ACTION.

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CONTRACTION

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MOE 1 OF 2 MOES AN IMPORTATION REPORT, NOT FINALLY EVALUATED INTELLIGENCE DENTIAL DEST 14 AUGUST 1968 COUNTRY: MEXICO 13 AUBUST 1968 SUBJUTE MEXICO CITY SITREP ACQ SCURCE :

1. AN ESTIMATED THURTY THOUSAND TO FIFTY THOUSAND DEMONSTRATORS TURNED OUT FOR THE MARCH FROM THE HATIOMAL POLYTECHNIC INSTITUTE (IPN) TO THE MEXICO CITY ZOCALO ON 13 AUGUST 1968. AT 2010 MCUPS, AFTER A THREE HOUR MARCH, THE END OF THE COLUMN REACTED THE ZCCALO, BY WHICH TIME THE NUMBER OF PERSONS INVOLVED. INCLUDING MALY PYSTAMDERS, WAS ESTIMATED AT YROM SEVENTY-FIVE TO EIGHTY THOUSAND. THE MARCHING COLUMN CONSISTED PRIMARILY OF STUDENTS, BUT SOME WORKERS WERE OF SERVED. THE MARCH WAS ORDERLY. AND NO DISTURBANCES VERY CESTRVED OR REPORTED . EXCEPT FOR ALAIK CLOTHES POLICEMEN AND PATROL CARS, NEITHER THE POLICE FORCE NOR



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THE ARRY WAS PRESENT ON THE SCENE, ALTHOUGH SOME FOLICE VANS

- 2. ON ARRIVAL AT THE ZOCALO, STIDENTS ASSEMBLED PUBLIC ADDRESS EQUIPMENT IN PREPARATION FOR SPEECH-MAKING. SEVERAL STUDENTS ATTEMPTED TO CLIMB THE WALL OF THE NATIONAL PALACE, BUT THEY WERE RESTRAINED BY OTHER STUDENTS. THERE WAS HUCH CLAHORING FOR THE PRESIDENT OF MEXICO TO MAKE A" APPEARANCE, BUT ALL LIGHTS IN THE PALACE WERE OUT.
 - 3. AS OF 2100 HOURS, A FEW STUDENTS WERE DRIFT ING AWAY FROM THE AREA, BUT A MAJORITY REMAINED.

4. ISSEM: STATE ARMY NAVY AIR FBI CINCSO.

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Title:	MEXICAN STUDENT CRISIS STILL UNRESOLVED				
Abstract:					
Pages:	0001				
Pub Date:	8/16/1968				
Release Date:	3/1/2002				
Keywords:	ALFONSO CORONA DEL ROSAL MEXICO DEMOSTRATIONS STUDENT RIOTS IPN STUDENT MARCH				
Case Number:					
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SECRET

MEXICAN STUDENT CRISIS STILL UNRESOLVED

The Mexican Government seems willing to permit the students to continue their strike and air their grievances as long as demonstrations are peaceful.

The most recent mass march in the capital on 13 August appeared to be the largest demonstration to date. Although the march was orderly, slogans and chants were unusual in their vilification of the Mexican President, who traditionally is immune from personal attack. Student strikes in support of the Mexico City students have been announced in five states.

Although tourist and commercial interests have urged early action, the government appears to believe that if the students exhaust their energy in demonstrations now, they will be tranquil through the Olympics in October. It is making no concessions, however, and is appealing to the rest of the population to bring the students into line.

Mexico City's mayor, Corona del Rosal, who is the government's spokesman and could end up as the

official scapegoat, has angered students with charges that the disturbances are a premature outburst in a plot to foment trouble between police and students. He has also implied Cuban involvement. Corona's most generous proposal to the students has been the formation of a commission to investigate charges of police brutality and student deaths, but he denies that anyone has been killed or that university autonomy has been violated.

President Diaz Ordaz has so far declined to lend his prestige to the government's position, possibly reserving the formidable weight of his personal involvement for a real crisis. On the other hand, in the past he has permitted crises to drag on for political purposes, and has shown a talent for destroying important politicians in a spectacular way.

A politician's inability to preserve the peace in the area of his charge has more than once provided the President with an excuse to abort a political career. Corona del Rosal has been mentioned as Diaz Ordaz' possible successor, and it is possible that the President has decided to "burn" him.



Title:	MEXICAN GOVERNMENT IN A QUANDARY OVER STUDENT CRISIS
Abstract:	
Pages:	0002
Pub Date:	8/23/1968
Release Date:	6/12/2002
Keywords:	MEXICO CUBAN EMBASSY MEXICAN GOVERNMENT OLYMPIC GAMES ORDAZ DIAZ
Case Number:	F-1995-00272
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(P)(3) (P)(1) TOP SECRET

MEXICAN GOVERNMENT IN A QUANDARY OVER STUDENT CRISIS

An attempt to turn the student-government confrontation in Mexico into a dialogue appears to have broken down and there is still no clear indication of when or how the crisis will dissipate.

A brief standoff occurred when moderate student groups agreed to meet with government representatives offering joint investigation of charges against the authorities. Radical elements, however, buoyed by the government's defensive position since the huge, orderly student demonstration last week, have sabotaged conciliatory moves and worked to harden student posi-There is considerable incoherence on the student side, which lacks a recognized spokesman. The several presumptive spokesmen nevertheless appear unified on three basic demands: university autonomy, nonintervention of public forces in school matters, and repair of school buildings damaged during the riots. One student group claims that time is running against the government's side because of the approaching Olympic games, and is resisting all government overtures that are not direct and public.

There is no evidence that the government has in mind any major concessions to the students.

The government's dilemma comes from its belief that giving in to the students could invite further demands, but

that ignoring grievances would heighten the likelihood of further disruption of public order.

Diaz Ordaz plans to make a strong statement on students and youth in his state of the union address on 1 September. The President considers that Mexican public opinion is more unsympathetic to the student causes than ever because of the riots. The government may "demonstrate" its own popular backing by staging a massive worker-peasant rally following Diaz Ordaz' address.

the government has absolute proof that the Cuban Embassy and the Soviets are directly involved in the student disturbances.

ask certain Cubans and Soviets to leave Mexico.

TOP SECRET

Page 24

WEEKLY REVIEW

23 Aug 68

Local Communist youths are known to have been involved in the July riots that inaugurated the crisis.

The Mexican Government may be underestimating the students. In spite of the division in their ranks and the numerous

limitations and pressures on them, the students have made several spectacular, disciplined demonstrations of their strength and their willingness to confront the force of the government. continuing impasse holds the possibility of further violent outbreaks. The next major demonstration is set for 27 August.

TOP SECRE WEEKLY REVIEW 23 Aug 68

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Title:	RENE REBETEZ	RENE REBETEZ			
Abstract:					
Pages:	0001				
Pub Date: 8/24/1968					
Release Date:	10/3/2000				
Keywords: MEXICO INFORMATION REBETEZ RENE					
Case Number:	EO-1999-00594				
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TO FEDERAL BUREAU OF INVESTIGATION DEPARTMENT OF STATE (SY/PRS) SECRET SERVICE-PID SUBJECT:

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PLUI.

FILE TRACES ARE BEING CONDUCTED AND ANY RESULTING DEROGATORY INFORMATION WILL BE FORWARDED. GP-1 142

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Title:	MEXICO CITY SITREP (DELETED)			
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I. OF THE ESTIMATED IVO HUNDRED THOUSAND PERSONS CONGREGATED IN
THE MEXICO CITY ZOCALO ON THE EVENING OF 27 AUGUST 1968, APPROXIMATELY ONE MUNDRED FIFTY THOUSAND WERE LOCAL STUDENTS,
TEN THOUSAND STUDENTS FROM OUTSIDE MEXICO CITY, AND FORTY TROUSAND
WORKERS, PEASANTS, INTELLECTUALS, ARTISTS, ETC., INCLUDING BYSTANDERS.
THE ONLY DISORDERLY CONDUCT OBSERVED WAS THE PAINTING, WITH RED PAINTS.
OF OFFENSIVE SLOGANS OF THE WALLS OF THE NATIONAL PALACE AND
THE SHOUTING BY A SMALL GROUP OF DEMONSTRATORS "EL VIEJO AL PAREDOM"
THE OLD MAN - ÆANING PRESIDENT DIAZ ORDAZ - SO THE WALLS.

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PAGE 2 OF 2 PAGES



2. BY THE TIME SPEECH MAKING HAD FINISHED, AT ABOUT 2145 HOURS, ONLY EIGHTY TO ONE HUNDRED THOUSAND DEMONSTRATORS REMAINED. AT ABOUT 2288 HOURS, GROUPS OF STUDENTS BEGAN ARRANGING FOR A "SIT-IN" AT THE TOCALO UNTIL I SEPTEMBER (THE DAY OF THE PRES. DEMTS REPORT TO THE NATION) OR UNTIL THE STUDENTS DEMANDS ARE MET. THE STUDENTS HAVE ANNOUNCED THAT THEY ARE DEMANDING A PUBLIC DEBATE AT 1888 HOURS ON 1 SEPTEMBER, STUDENTS FROM THE SCHOOL OF PHILOSOPHY AND LETTERS AT THE NATIONAL UNIVERSITY WERE THE FIRST TO VOLUNTEER FOR THE "SIT-IN", WHICH WILL BE ACCOMPLISHED BY THIRTY TO FORTY STUDENTS

EACH AT THE FOUR CORNERS OF THE ZOCALO. THE STUDENTS HAVE SCHOOL BUSES AVAILABLE TO PROVIDE TRANSPORTATION FOR CHANGES OF SHIFT EVERY SIX HOURS AND TO KEEP THOSE SITTING-IN PROVIDED WITH FOOD.

3. AS OF 2288 HOURS, ARMY TROOPS WERE STILL STATIONED AT THE AMERICAN EMBASSY.

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I, FOR APPROXIMATELY IND HOUR", CONNECTED AT 1748 HOURS, A COLUMN OF STUDENTS, ESTIMATED TO NUMBER ONE HUNDRED INVENT?

THOUSAND, MARCHED POST THE AMERICAN EMBASSY IN MEXICO CITY.

THE LINE OF MARCHERS, USUALLY TWENTY-FIVE ABREAST, WAS NOT COSMIDUOUS; STUDENTS WARE GROUPER ACCORDING ID THE MANY SCHOOLS PARTICIPATING, WITH SPACES OF UP TO FIFTY YARDS SEPARATING THE GROUPS, A FEW PEASANTS WERE SCATTERED THROUGHOUT THE COLUMNS, AND SEVERAL BANNERS REPRESENTING GROUPS OF WORKERS, PRINCIPALLY ELECTRICIANS, WERE OBSERVED.

APPROVED FOR RELEASE DATE: MAR 2002

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- 2. ALL UNITS PARTICIPATING IN THE DEMONSTRATION APPEAR TO
 SE VERY WELL CREANIZED, AND THE COUNTLESS PLACARDS AND BANNERS
 ARE, IN THE MAIN, WELL-PREPARED. NO ONE HAS BEEN SEEN CARRYING
 WEAPONS OF ANY XIND. PLACARDS CARPY A VAIETY OF THEMES, INCLUDING
 NOT ONLY THE DEMANDS OF THE STUD-NTS, DUT CRITICISM OF THE GOVERNMENT,
 PROTESTS ACAINST THE WAR IN VIETNAD, PROTESTS AGAINST THE USSR IN-.
 VASION OF CZECHOSLOVAKIA, PICTURES OF THE GUEVARDA, LEON TROTSKY,
 AND SLOGANS OF "YANKEE CO HOME", "CUPA SI, YANKEE NO", "RELEASE
 POLITICAL PRISONERS", "RELEASE DEMITRIO VALLEGO", FIG.
- 3. MANY OF THE MARCHING GROUPS PAUSED IN FORMT OF THE AMERICAN EMBASSY, WHISTLED LOUDLY, SHOOK PISTS AND SHOUTED "YANKEE ASSASSINS". ONE VERY YOUNG STUDENT, USING RED PAINT, PRINTED THE WORD "ASSASSINS" ALONG THE LENGTH OF THE BEVLY PAVED SIDEWALK ACROSS
 THE STREET FROM THE EXBASSY. HE WAS NOT HOLESTED BY THE MART POLICEMEN WHO CESERVED HIM.
- MEXICO CIT P VERE THOSE FROM DURANGO, PUEBLE, GUERRERO AND MORELOS.
 - THE MARCH, WAS FILLED ALMOST TO CAPACITY WITH AN ESTIMATED TWO HUNDRED THOUSAND PERSONS, MOSTLY STUDENTS, BUT INCLUDING SOME WORKERS AND



- TO THE PARTY NAMED IN COLUMN TWO IS NOT THE PA

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PEASANTS.

6. THERE HAVE BEEN NO REPORTED INCIDENTS OF DISORDER.

7. DISSEM: STATE ARMY WAVY AIR FBI CINCSO CINCLANT

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Title:	MEXICO CITY SITREP (DELETED)
Abstract:	
Pages:	0003
Pub Date:	8/28/1968
Release Date:	6/19/2002
Keywords:	MEXICO DEMOSTRATIONS STUDENT RIOTS IPN STUDENT MARCH
Case Number:	F-1995-00272
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Release Decision:	RIPPUB
Classification:	U

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PAGE 1 OF 3 PAGES

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1. FOLLOWING THE STIDENT OUTBREAK IN THE ZOCALO ON 23 AUGUST 1948, THERE HAVE BEED FEW REPORTS CONCERNING ANY TYPE OF STUDENT ACTIVITY. THE LOCAL PRESS CARRIED EXTENSIVE COVERAGE OF THE STUDENT DESECRATION OF THE NATIONAL' CATHEDRAL AND THE MEXICAN FLAG IN THE ZOCALO, AND THE CONSEQUENT GOVERNMENT -SPONSORED CÉREMONY OF VINDICATION.

2. A RIPTOR PREVALENT THROUGHOUT THE CITY OF A GASOL INE STRIKE HAS NOT PROVED TRUE BUT HAS CAUSED CONSIDERABLE

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TRAFFIC JAMS AS EVERYONE HAS RUSHED TO FILL UP HIS AUTOMOBILE

AUTONOMOUS UNIVERSITY OF MEXICO (UNAM) ON THE MORNING OF 29 AUGUST TO TAKE A DECISION WITH REGARD TO THE ARREST OF HEBERTO CASTILLO GARTINEZ, UNAM PROFESSOR, LEADER OF THE NATIONAL LIBERATION MOVEMENT (MLM), AND A LEADING ADULT AGITATOR. TEACHERS OF THE UNAM FACULTY OF POLITICAL SCIENCES CALLED AN URGENT MEETING FOR 1966 HOURS TO ANALYZE THE CURRENT SITUATION. THEY FEAR THAT THE GOVERNMENT DESIRES TO END THE PROBLEM ONCE AND FOR ALL BEFORE I SEPTEMBER AND THAT THE SITUATION COULD DEGENERATE INTO VERY VIOLENT CLASHES, GIVEN THE HIGHLY ANGERED STATE OF THE STUDENTS.

C. DENIN

A, AT 6592 HOURS A BAND OF ARMED MEN BROKE INTO VOCATIONAL SCHOOL NOT SEVEN OF THE NATIONAL POLYTECHNIC INSTITUTE (IPN), CHASED THE STUDENTS OUT, AND SHOT OUT SOME OF THE WINDOWS, ALL THE WHILE SHOUTING "VIVA DIAZ ORDAZ." THEIR IDENTITY HAS NOT SEEN DETERMINED, ALTHOUGH THE REPORT HAS BEEN CIRCULATED THAT THEY BELONGED TO THE ARTY OR SOME GOVERNMENT AGENCY.



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COMMENT: THIS INCIDENT STIRRED UP THE SITUATION AGAIN THOUGH NOT TO THE BOILING POINT.) AS OF 1738 HOURS TROOPS ARE TO BEGIN OCCUPYING THIS VOCATIONAL SCHOOL. SINCE THE IPN HAS NO AUTOHOMY, IT IS NOT AS "TOUCHY" AS IF IT WERE A UNAM PREPARATORY SCHOOL.

5. SOME DOCTORS ARE MEETING DURING THE AFTERNOON IN THE
CITY MOSPITALS TO CONSIDER SUPPORTING THE STUDENTS' DEMANDS
WITH A SLOWDOWN CTRIKE.

6 DISSEM: STATE ARMY MANY AIR FBI CINCSO CINCLANT.
REPORT CLASS: CONFIDER TIAL



TITLE:	MEXICAN MILITARY ALERT FOR POSSIBLE CUBAN INFILTRATION OF ARMS DESTINED FOR STUDENT USE						
Abstract:							
Pages:	0002						
Pub Date:	8/30/1968						
Release Date:	2/1/1998						
Keywords:	MEXICO CUBA DEMOSTRATIONS STUDENT RIOTS IPN STUDENT MARCH						
Case Number:							
Copyright:	0						
Release Decision:	RIPPUB						
Classification:	U						

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CENTRAL INTELLIGENCE AGENCY Intelligence Information Cable IN 81569

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PAGE 2 OF 2 PAGES

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THE MEXICAN NAVY HAS BEEN PUT ON ALERT. THREE GUNBOATS
AND TWO MINESWEEPERS WERE DISPATCHED TO PATROL THE YUCATAN COAST
LINE FROM 21 AUGUST UNTIL THE END OF SEPTEMBER. MILITARY LAND
UNITS ALONG THE COAST HAVE ALSO BEEN ORDERED TO BE ON THE ALERT
FOR POSSIBLE INFILTRATION OF ARMS.

DISSEM: STATE ARMY NAVY AIR FBI CINCSO CINCLANT.

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Title:	MEXICO CITY SITREP (DELETED)
Abstract:	
Pages:	0005
Pub Date:	8/31/1968
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Release Decision:	RIPPUB
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AGAINST T	HE GOVERNME!	NT ON 1 S	EPTEMBER.	HE DECIS	ION WAS	TAKEN A	I	
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DATE: MAR 2002 (b)(3)
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OF A POSSIBLE DEMONSTRATION IN THE ZOCALO AT ALL UNSPECIFIED I IME
AFTER THE DELIVERY OF THE PRESIDENTIAL INFORME. FOR THE PRESENT
THE STUDENTS ARE TO AVOID CONFRONTATIONS WITH THE FEDERAL TROOPS AND
OTHER LARGE DISCRDERS BUT ARE TO PARTICIPATE IN LIGHTNING RALLIES
STAGED BY POLITICAL "BRIGADES" THROUGHOUT THE CIT: THE CHH IS
PURSUING ITS GOALS OF OSTAINING A PEACEFUL, PUBLIC "DIALOGUE" WITH
GOVERNMENT AUTHORITIES AND A SOLUTION TO ITS SIX-POINT PET ITION.
IN ADDITION, THE CHH, WHICH SEETS TO HAVE LOST SOME OF ITS AGGRESSIVEMESS, AGREED THAT THE STUDENTS SMOULD COVER UP WALL PAINTINGS, CLEAN
THE STREETS AND SCHOOLS, AND ASSIST DURING THE OLYMPIC GAMES BY
CLEANING THE STREETS EVERY DAY AND OFFERING INTERPRETER, PORTER,
AND CHAUFFEUR SERVICES.)

2. HEITHER THE CHH HOR THE "STUDENT MOVEMENT" HAS ANY OFFICIAL PLANS TO TAKE ANY ACTION ON THE OCCASION OF THE 1 SEPTEMBER PRESIDENTIAL "INFORME" OR DURING THE INDEPENDENCE CELEBRATION ON LA SEPTEMBER, ALTHOUGH THE LATTER MAY DEPEND ON INTERVENING EVENTS. AT PRESENT, MOST STUDENTS HAVE SEEN FRIGHTENED AWAY BY ARMY ACTION. IT IS POSSIBLE THAT SOME ISOLATED STUDENT GROUPS MAY ATTEMPT TO DISRUPT THE "INFORME, BUT THESE WOULD BE INDIVIDUAL ACTIONS NOT CENTRALLY DIRECTED BY THE CYH. AMONG THESE IS A GROUP FROM THE



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PAGE 3 OF 5 PAGES

SPARTACUS COMMUNIST LEAGUE (LCE) WHICH IS REPORTEDLY DEFINITELY
PLANNING TO CREATE A DISTURBANCE ON I SEPTEMBER. LUIS GONZALEZ

DE ALBA, PRESIDENT OF THE STUDENTS' SOCIETY OF THE FACULTY OF
PHILOSOPHY AND LETTERS OF THE NATIONAL AUTONOMOUS UNIVERSITY OF
MEXICO (UNAM). CONTINUES TO DIRECT THE CNH. OTHER KNOWN AGITATORS
FROM UNAM ARE GILBERTO GUEVARA NIEBLA, OF THE FACULTY OF SCIENCES;
ROMER GONZALEZ MEDRANO, PRESIDENT OF THE STUDENTS' SOCIETY OF THE
FACULTY OF POLITICAL SCIENCE; AND JESUS RODRIGUEZ, ROBERTA AVENDANO,
AND IGNACIO RUDRIGUEZ, ALL OF THE LAW FACULTY. THE CNH HAS BEEN
CRIPPLED BY THE LACK OF SUPPORTERS FOLLOWING THE ARMY ACTION. ON
30 AUGUST THERE WERE NOT MORE THAN 200 STUDENTS ON THE UNAM PREMISES.
THE CHK IS NOW SIMPLY A GROUP OF ABOUT 20 PLASONS WITHOUT ANY BASE
OF SUPPORTERS. MOST OF THE ACTION IN THE STUDENT MOVEMENT CENTERS
AROUND THE 1PN.

AND A SMALL GROUP OF RADICALS. WHILE THE RADICALS HAVE JOIGED THE HODERATES IN NOT ADVOCATING VIOLENCE ON I SEPTEMBER, THEY ARE CONTINUING PLANS FOR AGITATION AFTER THEY SEE WHAT HAPPENS ON I HAT



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PAGE 4 OF 5 PAGES

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DAY. SOME RADICALS HAVE BEEN STOCKING MOLOTOV COCKTAILS AND HAVE

BEEN BUYING WEAPONS FROM STORES THROUGHOUT THE CITY.

5. ALTHOUGH INTERNS AND DOCTORS OF THE MEXICAN INSTITUTE OF SOCIAL SECURITY (IMSS) ARE TO MEET AGAIN ON 31 AUGUST TO DISCUSS

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54.00

B4 83101 PAGE 5 OF 5 PAGES A POSSIBLE SYMPATHY STRIKE WITH THE STUDENTS, THERE IS NO SUPPORT AMONG DOCTORS FOR A STRIKE IN SPITE OF TOKEN GESTURES WHICH THEY ARE ALLEGED TO BE PERFORMING IN SUPPORT OF THE STUDENT CAUSE. DISSEM: STATE ARMY HAVY AIR FIB CINCSO CINCLANT. REPORT CLASS: CONSIDENT IAL ADVANCE COPY TRANSMITTED TO: WHITE HOUSE STATE DIA ARMY NAVY AIR JCS NIC NEA OCI FBI USIA.

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Title:	MEXICO CITY SITREP (DELETED)
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Classification:	U

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1. STUDENT STRIKE COMMITTEES AT THE NATIONAL AUTONOMOUS
UNIVERSITY OF PEXICO(UNAM) THE IN CONTINUOUS SESSION DURING
3 SEPTEMBER 1968. THE NATIONAL STRIKE COUNCIL (CHH) HAS SENT
SPECIAL "ERIGADES" TO THE STATES (F CHIHUAHUA, VERATRUZ, PUEBLA,
AND NUETO LEON TO EMLIST THE AID OF STUDENTS AND STUDENT
ORGANIZATIONS IN SUPPORTING MEXICO CITY STUDENTS.

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2. STUDENTS AT THE SUPERIOR SCHOOL OF ECONOMICS (ESE) OF
THE MATIONAL POLYTECHNIC INSTITUTE (IPM) RECEIVED WORD THAT A
STUDENT FIGHT COMMITTEE HAS BEEN FORMED IN SALTILLO, COAHULLA,
INE ESE FIGHT COMMITTEE WAS ALSO INFORMED THAT STUDENT REPRESENTATIVES FROM THE IPM SUPERIOR SCHOOL OF BUSINESS AUMMINISTRATION
HAD : D.D TALKS WITH EMPLOYEES OF THE LIGHT AND POWER COMPANY IN
MEXICO CITY AND HAD ARRANGED A MEETING FOR A SEPTEMBER, AT WHICH
SPEAKERS, INCLUDING ONE FROM THE ESE FIGHT COMMITTEE, WOULD ATTEMPT TO "CONVINCE THE UNBELIEVERS". THE STUDENTS CONSIDER THE
SUPPORT OF THESE EMPLOYEES ESSENTIAL, PREFERABLY IN THE FORM OF

A ONE-HOUR POWER STOPPAGE.

COMMENT: THE TWO-HOUR GENERAL WORK STOPPAGE

WHICH THE CEN HOPED .O PROMOTE FOR 1388 TO 1588 HOURS ON 4

SEPTEMBER DID NOT MATERIALIZE. ACCORDING G TO THE LOCAL PRESS

REPORTS, THE CWH IS CONSIDERING STAGING

A DEMONSTRATION DURING THE WEEK OF 9 SEPTEMBER.

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TITLE:	MEXICAN GOVERNMENT STALLS STUDENT MOVEMENT
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MEXICAN GOVERNMENT STALLS STUDENT MOVEMENT

Encounters between students and police have decreased sharply and violence has virtually ended since the Mexican Government moved against student strikers last week. Uneasiness in Mexico City was evident, nevertheless, in the public confusion and panic buying that followed a rash of rumors that food and gasoline were in short supply. Some student leaders are threatening new street rallies in defiance of the official crackdown, and the violence is not yet clearly over.

The government delayed its offensive until student excesses led to several violent clashes with security forces on 28 August. Following a huge, orderly rally on 27 August, students attempted a "camp in" with tents on the capital's main plaza but were routed by police. Angered, the students later occupied the national cathedral, raised the black and red flag of anarchy in the plaza, and painted signs carrying vulgar abuse of the President, who is usually held above political attack in Mexico.

These actions offended many Mexicans, including some previously sympathetic to the students, and the government took advantage of the changed climate to order the police to use force if necessary against the demonstrators and to detain a number of troublemakers.

In his state of the union message on 1 September, Presi-

dent Diaz Ordaz eloquently expressed the need to keep dissidence within legal bounds and firmly declared that excess would not be tolerated. He reaffirmed university autonomy and denied that it had been violated during recent disturbances.

The President ignored many of the student demands but gave minor concessions. While denying knowledge of any "political prisoners," he offered to free at once any whose case was brought to his attention. He further suggested open congressional hearings on the need to change Article 145 of the criminal code, which defines the crime of "social dissolution" under which alleged "political prisoners" are detained.

The President's speech seems to have divided the student groups, which have not yet offered a clear response. One organization issued a press release indicating its intention to continue the fight and its desire for a dialogue with the government "when the repression ends." There has been some mention of a "silent protest march" scheduled for 6 September and of several demonstrations on Independence Day, 16 September. With the opening of the Olympics scheduled for 12 October, the government will probably meet any attempt to resume demonstrations with very tough measures. (CONPIDENTIAL)



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CONNECTED WITH HIGHER EDUCATION AND TO ADD POLITICAL, ZOONOMIC ASL. SOCIAL ISSUES.

2. AT TIMES, SINCE THE BEGINNING OF THE DISTURBANCES, THE COVERNMENT HAS NOT SERNED UNIFIED OR CERTAIN AS TO WHAT ACTION SHOULD BE TAKEN. ASIDE FROM FORCEFUL REPRESSION OF VIOLENCE INITIATED BY STUDENTS, THERE WAS A PERIOD WHEN THE COVERNMENT TOOK NO POSITIVE STEPS. THERE WIRE HOPES FOR PERSONAL INTERVENTION OF THE PRESIDENT DURING THE HEIGHT OF THE DEMONSTRATION, BUT HE CHOSE TO MAIT UNTIL THE OCCASION OF HIS ANNUAL STATE OF THE UNION MESSAGE (IMPORMS) TO RECOME PERSONALLY INVOLVED IN THE STUDENT CRICIS. HE DEVOTED APPROXIMATELY ONE-THIRD OF HIS ADDRESS TO THE STUDENT PROBLEM. WHILE HE EXPRESSED A WILLINGHESS TO NEGOTIATE ON SOME ISSUES, HE PORCEPULLY POINTED OUT THE SERIOUSNESS OF THE PROBLEM AND PIRMLY WARNED THAT VIOLENCE WOULD NOT BE PERMITTED TO CONTINUE. THE PRESIDENT'S STAND WAS WELL RECEIVED BY THE PUBLIC. HOWEVEY. APTER AN INITIAL PERIOD WHEN THERE WAS NO REACTION FROM THE STUDENTS IT APPEARS THAT THE STUDENTS HAVE BROKEN DOWN INTO TWO GROUPINGS -"MODERATES" AND "MILITANTS." THE MODERATES ARE READY TO RECOTIATE, BUT THE MILITARTS HOPE TO CONTINUE THE STRUGGLE AND TO SPREAD THE PROBLEM TO OTHER HIGHER EDUCATIONAL INSTITUTIONS IN THE NATION.

MAGE 3 OF 8 PAGES

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THE PRINCIPAL INSTRUMENTALITY OF THE STUDENTS DURING THIS TIME HAS BEEN THE NATIONAL STRIKE COUNCIL (CNH). THIS ORGANIZATION BEGAN AS A LOOSELY KNIT PCDY OF STUDENTS FROM THE NATIONAL POLYTECHNIC INSTITUTE (IPN), AND HAS BECOME BETTER ORGANIZED WITH EACH SUCCESSIVE DEMONSTRATION. IT NOW NUMBERS APPROXIMATELY ONE HUNDRED AND FORTY STUDENTS, REPRESENTING THE STRIKE COMMITTEES OF THE MAJORITY OF THE SCHOOLS INVOLVED IN THE PRESENT MOVEMENT. FROM ALL INDICATIONS, THE CNH IS GUIDED, OR AT LEAST ADVISED, BY A GROUP OF TEACHERS AND PROFESSORS FROM THESE SCHOOLS. THIS GROUP INCLUDES SCHE OF MEXICO'S MOST PROMINENT LEFTIST INTELLECTUALS. ALTHOU THE CNH HAS ACHIEVED SOME DEGREE OF ORGANIZATION, REPORTS INDIC THAT IT COMPRISES SEVERAL FACTIONS AND THAT ITS DELIBERATIONS ARE MARKED BY MUCH DISAGREEMENT.

- 4. ASIDE FROM THE HARD-CORE STUDENTS DIRECTLY INVOLVED IN THE CNM, THE STRIKE COMMITTEES AND THE "ERIGADES", THE MAJORITY OF STUDENTS AT THE NATIONAL AUTONOMOUS UNIVERSITY (UNAM) AND IPN HAVE NOT TAKEN ACTIVE ROLES EXCEFT DURING THE DEMONSTRATIONS. AT THE TIMES OF DEMONSTRATIONS, MANY OF THESE HAVE "JOINED THE CROWD", BUT HAVE NOT CONTINUED TO PARTICIPATE ON A DAY-TO-DAY BASIS.
- 5. THE STUDENTS, THROUGH THE CNH, HAVE TRIED TO TAKE THEIR CASE TO THE PROPLE BUT WITHOUT APPARENT SUCCESS. A HOPED FOR

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GENERAL WORK STOPPAGE ON & SEP; EMBER DID NOT MATERIALISE, AND NO SIGNIFICANT NUMBERS OF WORKERS OR PEASANTS HAS BECOME INVOLVED.

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THE ONE DISTINGUISHING FEATURE OF THE CURRENT ST. DENT UNREST HAS BEEN THE UNPRECEDENTED UNLE SHING OF CRITICISM AND INVECTIVE AGAINST THE COVERNMENT AND, IN PARTICULAR, AGAINST THE PRESIDENT. . THAT THIS TURN OF EVENTS HAS SHAKEN THE PRESENT AIMINISTRATION IS ATTESTED TO BY REPORTS, WHICH ALTHOUGH UNCONFIRMED ARE CONSIDERED TO BE PROBABLY TRUE, THAT THE GOVERNMENT HAS INSPIRED RUMORS OR REPORTS THAT THE U. S. GOVERNMENT, THROUGH THE CIA AND FBI, EITHER SPARKED OR MURTURED THE STUDENT CRISIS. THE GOVERNMENT HAS NOT FAILED, OF COURSE, TO AVAIL ITSELF OF THE OPPORTUNITY TO BLAME THE COMMUNISTS, WHO ARE ALMAYS A PLAUSIBLE AND TEMPTING TARGET, SINCE THEY STAND TO SENEFIT FROM AND HAVE BEEN INVOLVED IN THE DISTURBANCES. IT HAS BEEN PEPORTED THAT THE PRESIDENT ATTRIBUTE THE STUDENT UPRISINGS TO THE COMMUNISTS, WHE HE CLAIMS, ARE AIDED AND SUPPORTED BY THE CUBAN AND SOVIET EMBASSIES. HOMEVER, IT IS IMPOSSIBLE TO SAY WITH CERTAINTY WHETHER HE ACTUALLY BELIEVES THIS THERE IS NO HARD EVIDENCE THAT EITHER THE CURAN OR TO BE TRUE. THE TOVIET EMBASSIES HAVE MASTERNINDED THE DISTURBANCES, ALTHOUGH IT IS REASONABLE TO ASSUME THAT THEY HAVE AT LEAST PROVIDED MORAL

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SUPPORT. LOCAL LEFTIST EXTREMISTS HAVE BEEN EXPLOITING THE SITUATION TO THE BEST OF THEIR CAPABILITIES. IT IS INTERESTING TO NOTE THAT THERE HAS BEEN VERY LITTLE SPONTANEOUS CRITICISM OF THE SOVIETS, EVEN THOUGH THE SOVIET-CZECH CONFRONTATION OCCURRED IN THE MIDST OF THE DISTURBANCES. THERE HAS BEEN EULOGIZING OF CHE GUEVARA BUT. LITTLE OR NO PRAISE FOR FIDEL CASTRO.

7. ONE MAJOR CONCERN HAS APPEARED TO BE UPPERMOST IN THE MINDS OF GOVERNMENT OFFICIALS - THAT THE STUDENT PROBLEM NOT INTERFERE WITH UPCOMING OLYMPIC EVENTS. IT APPEARS THAT THE STUDENTS, ASIDE FROM THE MORE RADICAL ELEMENTS, REALIZE WHAT IS AT STAKE IN THE OLYMPICS, AND WHILE THE MAJORITY WOULD NOT TRY TO DISRUPT THE GAMES, THE FACT THAT THE TIME FOR THE OLYMPICS IS CLOSE AT HAND DOES NOT INHIBIT THE STUDENTS FROM AIRING THEIR GRIEVANCES. HOWEVER, FROM THE EXTREME RADICALS, ANYTHING CAN BE EXPECTED.

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IS PASSING, AND ORGANIZATIONS LIKE THE NATIONAL PEDERATION OF TECHNICAL STUDENTS (FRET) HAVE BEEN REPLACED - AT LEAST FOR THE PRESENT - BY A MORE MILITARY DEMANDING ORGANIZATION, THE CHH.

STUDENTS HAVE FOUND THEY CAN BE A SIGNIFICANT ELEMENT IN THE NATION'S DECISION MAKING PROCESS, AND THEY ARE NO LONGER CONTENTED WITH THE PATRONIZING ATTITUDE OF THE GOVERNMENT. STUDENTS HAVE LEARNED THAT THEY CAN ASSERT THEMSELVES TO THE EXTENT WHERE NOT ONLY THE GOVERNMENT BUT THE PEOPLE LISTER, REGARDLESS OF WHETHER THE GOVERNMENT AGREES WITH THE STUDENTS OR NOT.

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Title:	MEXICAN STUDENTS STILL SPAR WITH GOVERNMENT	
Abstract:		
Pages:	0001	
Pub Date:	9/13/1968	
Release Date:	6/12/2002	
Keywords:	COMMUNIST OLYMPICS STRIKERS ORDAZ DIAZ	
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MEXICAN STUDENTS STILL SPAR WITH GOVERNMENT

Mexican students have rejected the government's response
to their demands and are threatening to continue their movement
in the streets. They plan a
silent "mourning" march on 13
September, which if carried out
will indicate how cohesive the
movement still is and will show
also the extent of the government's determination to use force.

The latest official reply to the students amounted to a reiteration of the stern position taken by President Diaz Ordaz in his state of the union message on 1 September and probably undermined tentative negotiations that had been under way. The government appears to believe that its behind-the-scenes maneuvering to divide the students has been effective enough to risk provoking the strikers.

An officially inspired "committee of the authentic student body" has publicly opposed the strike, and other governmentinfluenced sectors have voiced their support for the President. The press has reported the staging of a progovernment, anti-Communist demonstration on 8 September in the capital.

The government may, however, continue to underestimate the students, whose recently found ability to rattle the authorities has been a heady experience that could play into the hands of extremist leaders who have most to gain in a prolongation of the unrest.

The embassy estimates that these radicals have only a limited ability to cause serious disruption at the Olympics starting on 12 October and notes no suggestion yet of any moves growing out of the student protest that might affect US participation.

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Abstract:	
Pages:	0002
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Case Number:	F-1995-00272
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AND LER HOURS IMMEDIATELY PRIOR TO THE STUDENT MARCH
AND LER CHISTRATION SCHEDULED TO TAKE PLACE IN MEXIC. CITY AT
1688 HOURS ON 13 SEPTEMBER 1968, THE STATUS OF THE STUDENT
MOVEMENT IS CLOUDED BY MANY CONFLICTING REPORTS. WHEREAS THE
NATIONAL STRIKE COUNCIL (CNH) IN PUBLICIZING
THAY'S DENOISTRATION HAS EMPHASIZED THE PEACEFUL AND "SILENT"
NAYURE OF THE EVENT. SOME OF THE MANY LEAFLETS CIRCULATING IN
RECENT DAYS HAVE WAR'ED OF A PLANNED ATTACK ON THE AMERICAN EMBASSY
AND ON LOCAL PUSICIES ESTABLISHMENTS. ON THE EVENING OF
12 SEPTEMBER, SEVERAL EMBASS' EMPLOYEES RECEIVED ANONYMOUS TEL-



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EPHONE CALLS PURPORTING TO BE FROM STUDENTS, WARNING THEN TO

KEEP THE OR CHILDREN OFF THE STREETS ON 13 SEPTEMBER AND

TORENTENING AN ATTACK ON THE EMBASSY. ACCORDING TO PRESS REPORTS

ON 13 SEPTEMBER, THE STUDENT COUNCILS OF THE MEDICAL, ENGINEERING

AND LAW SCHOOLS OF THE NATIONAL UNIVERSITY (UNAM) VOTED TO

RETURN TO CLASSES, AND GROUPS IN OTHER SCHOOLS ARE EXPRESSING

DISSATISFACTION WITH THE PROLONGATION OF THE STRIKE. REPORTS SUCH AS

THESE ARE VERY DIFFICULT TO EVALUATE, HOWEVER, BECAUSE IT HAS NOT

BEEN POSSIBLE DURING THE COURSE OF THIS STUDENT MOVEMENT TO

DETERMINE THE EXTENT TO WHICH ANY GIVEN STUDENT ORGANIZATION TRILT

REPRESENTS THE WILL OF THE MAJORITY.

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Title:	MEXICO CITY SITREP (DELETED)
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STUDENT DEMONSTRATION OF 13 SEPTEMBER 1968 IN MEXICO CITY RANGE FROM FIFTY THOUSAND PASSING THE AMERICAN EMBASSY, AS CALCULATED BY COSERVERS AT THE EMBASSY, TO SEVENTY THOUSAND PASSING A POINT APPROXIMATELY ONE HALF MILE BEYOND THE EMBASSY, AS JUDGED BY AN AMERICAN JOURNALIST COSERVER, TO ONE HUNDRED THOUSAND, A FIGURE DECIDED UPON BY MEMBERS OF THE ASSOCIATED PRESS. AT THE ZOCALO, THE FINAL DESTINATION OF THE MARCHERS,

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APPROVED FOR RELEASE DATE: MAR 2002



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ESTIMATED A COMMEGATION OF SEVENTY-FIVE TO EIGHTY THOUSAND PERSONS.

INCLUDING BYSTANDERS. AS OF 2115 HOURS, THE DEMONSTRATION WAS

BEGINNING TO BREAK UP. DURING THE COURSE OF THE EVENING THERE HAVE

BEEN NO REPORTS OF DISTURBANCES RELATED TO THE DEMONSTRATION.

2. AS ADVERTIZED, THIS DEHURSTRATION WAS A "SILENT" ORE.

WITH STUDENT GRIEVANCES PROCLAIMED THROUGH THOUSANDS OF BANNERS
AND PLACARDS. THE MARCHERS WERE APPLAUDED ALONG THE ROUTE, BUT
IT IS NOT KNOWN TO WHAT EXTENT THIS WAS INSPIRED BY CLAQUES, WHOSE
PRESENCE WAS REPORTED BY SOME OBSERVERS. ALTHOUGH IT WAS
ORDERLY, THE DEMONSTRATION LACKED THE EVIDENCES OF ORGANIZATION
THAT CHARACTERIZED THE PREVIOUS MARCH ON 27 AUGUST. UNLIKE THE
SARLIER EVENT, NO INSTANCES OF VARDALISM, SUCH AS THE PAINTING
OF SLOGAKS ON SIDEVALKS OR WALLS, WERE OBSERVED. BANNERS
AND PLACARDS VENTILATED THE TULL RANGE OF STUDENT COMPLAINTS AGAINST
THE ADMINISTRATION, BUT THEY LACKED THE OFFETSIVE CHARACTER OF THOSE
EXHIBITED IN THE EARLIER DEMONSTRATION. IT IS ESTIMATED THAT
SEVENTY-FIVE PERCENT OF THEM WERE THE SAME AS THOSE USED PREVIOUSLY.
AND THE REMAINDER CONSISTED MAINLY OF SLOGANS APPEALING TO THE
POPULACE TO WOIN THE MOVEMENT.

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AT ABOUT IVENTY-FIVE TAXI DRIVERS, ONE HUNDRED PETROLEUM VORKERS AND A SMALL NUMBER OF ELECTRICAL WORKERS. OTHER UNIVERSITIES IDENTIFIED BY THEIR PLACARDS WERE FROM THE STATES OF PUEBLA, SIVALOA AND VERACRUZ.

4. CREANIZER OF THE DEMONSTRATION ISSUED INSTRUCTIONS TO
PARTICIPANTS BEFORE THE MARCH BEGAN THAT BANKERS AND PLACARDS
PROMOTING FOREIGN CAUSES, SUCH AS PRAISE OF CHE GUEVARA, WOULD
NOT BE PERMITTED.

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Title:	MEXICO CITY SITREP (DELETED)
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3. STUDENTS ARE REMOVING MIMEOGRAPH MACHINES AND PAPER FROM
THE PREPARATORY AND VOCATIONAL SCHOOLS, AND TAKING THEN TO PRIVATE
HOMES WHERE THEY WILL BE USED TO PRINT PROPAGANDA. A CANVAPS IS
UNDERWAY TO LOCATE HOMES IN WHICH TO LODGE STUDENTS AND STUDENT
LEADERS WHO ...E BEING SOUGHT BY POLICE. HOMES BEING SOUGHT ARE
THOSE OF NON-STUDENT FAMILIES; THEY WILL BE USED ONE TIME OWLY,
AND FOR NOT LONGER THAN TWENTY-FOUR HOURS.

A. A LARGE DEMONSTRATION WHICH WAS SCHEDULED TO TAKE PLACE
ON 25 SEPTEMBER HAS NOT BEEN OR GANIZED BECAUSE THE NATIONAL STRIKE
COUNCIL (CHH) LEADERS HAVE NOT BEEN ABLE TO MEET IN A SAFE PLACE.

THE CHH HAS DECIDED INSTEAD TO HOLD A DEMONSTRATION OF MOURNING
FOR STUDENTS KILLED IN CLASHES WITH THE POLICE, AND TO POSTPONE



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THE LARGER DEMONSTRATION BUT IL THE WEEK OF 29 SEPTEMBER. CHR LEADERS RECOGNIZE THAT THE MOURNING DEMONSTRATION HIGHT BE SOMEWHAT DISORGANIZED. BUT THEY FEEL THAT THEY SHOULD PROCEED WITH IT.

OUSISTS OF FROM EIGHTY TO ONE HUNDRED ACTIVE MEMBERS, WAS JOINED
BY THE UNIVERSITY CULTURAL ORGANIZATION COCU - ORGANIZATION CULTURAL
UNIVERSITARIA) IN DEMONSTRATIONS WHICH TOOK PLACE IN MONTERREY
OVER THE WEEKEND OF 28-22 SEPTEMBER. THE OCU, WHICH WAS FORMED ABOUT
ONE AND ONE HALF YEARS AGO, IS COMPOSED OF CATHOLIC LEFTISTS.
ALTHOUGH IT WORKS IN COOPERATION WITH THE JCM, "I CONTINUES
TO MAINTAIN ITS OWN ORGANIZATION AND METHODS OF OPERATION. AS OF
THE EVENING OF 21 SEPTEMBER, NO REPRESSIVE MEASURES AGAINST
STUDENTS HAD BEEN TAKEN. ALTHOUGH THE PUBLIC GENERALLY SUPPORTS
THE NUEVO LEON GOVERNMENT, UNION MEMBERS AT THE FUNDIDORA STEEL
HILL IN MONTERREY RECENTLY VOTED IN FAVOR OF THE STUDENTS AND

AGAINST THE GOVERNMENT.

DISSEM: STATE ARMY MAVY AIR FBI CINCSO CINCLANT

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FOR 27 SEPTEMBER AT 173E HOURS AT THE PLAZA DE LAS TRES CULTURAS.)

CARDENE DENOMSTRATION GATHERING FOIRT.

3. EARLY IN THE EVENING OF 24 SEPIENDER, ADOLE 200 S. CORPTS
ASSEMBLED IN FRONT OF VOCATIONAL SCHOOLS TWO AND FIVE AND KEPT
AGITATING AGAINST THE POLICE YNO WERE OCCUPYING THESE SCHOOLS.
AT VOCATIONAL SCHOOL NO. TWO A POLICEMAN PULLED HIS PISTOL, EVIDENTLY
PLANNING TO FIRE OVER THE STEDERTS' READS, BUT HE DID NOT RAIST,
THE WEAPON HIGH EMOUGH AND SHOT AND KILLED ONE STUGENT. IT IS

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SECURITY OFFICIALS CONSIDERED THIS A SERIOUS INCIDENT, WHICH COULD CAUSE EVEN HOLE PROBLEMS.) AT 1768 HOURS ON 25 SEPTEMBER, 158 STUDENTS HAD BATHERED AT THE VICTIM'S HOME, PRESUMBBLY TO JOIN THE FUNERAL PROCESSION TO THE CEMETER. THE COCASION WAS BEING WATCHED BY MEMBERS OF THE SECURITY SERVICE.

THE GOVERNMENT POLICY CURRENTLY BEING FOLLOWED TO QUELL
THE STUDENT UPRISINGS CALLS FOR INHEDIATE OCCUPATION BY THE ARMY
AND/OR THE POLICE OF ANY SCHOOL WHICH IS BEING USED ILLEGALLY AS
A CENTER OF SUBVERSIVE ACTIVITY. THIS POLICY WILL CONTINUE TO BE
POLLOWED UNTIL COMPLETE CALM PREVAILS. BOTH THE MINISTER OF
GOVERNMENT (GOBERNACION) AND THE HEAD OF THE OFFICE OF FEDERAL
SECURITY (DFS) STATE THAT, IN THEIR OFINION, NO DANGER EXISTS THAT
THE CLYMPIC GAMES WILL BE AFFECTED, AND, FURTHER, THAT THE SITUATION
1 ILL BE UNDER COMPLETE CONTPOL VERY SHORTLY, MEAPING A CESSATION OF
ALL ACTS OF VICLENCE SUCH AS HAVE OCCURRED DURING THE PAST SEVERAL
DAYS. AS OF 1628 MOURS ON 25 SEPTEMBER, NO VIOLENCE OR INCIDENTS
MAD BEEN REPORTED OR DETECTED, ASIDE FROM THE PLANNED, DISORGANIZED
DAMONSTRATION (PARAGRAPH ONE, ABOVE) WHICK WAS BEING PROHIBITED.

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FROCCUPIED BUILDING AT THE ZACATERCO UNIT OF THE NATIONAL POLYTECHNIC INSTITUTE (IPN). IT CLAIMS TO BE IN SATISFACTORY COMMUNICATION WITH STUDENT ELEMENTS IN THE FEDERAL DISTRICT AND CUTLYING UNIVERSITIES. THE CHM MEMBERS CLAIM THAT THE OLYMPICS ARE NOT A TARGET FOR DISRUPTION BUT THAT THEY OFFER AN IRREPSICTIBLE WAY OF BRINGING PRESSURE ON THE GOVERNMENT TO ACRIEVE DECAMOS. WHILE WO ATTEMPTS WILL BE MADE TO BREAK UP THE COMMINION, THE STUDENIS WILL USE THE OCCASION TO BRING ISSUES BEFORE

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Title:	MEXICO CITY SITREP (DELETED)
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MADE I OF 2 MIGES END SECRET SERVICE FBI SECRET SERVICE/PID IS IS AN INFORMATION REPORT, NOT FINALLY EVALUATED INTELLIGENCE 280309Z CONFIDENTIAL 27 SEPTEMBER 1968 COUNTRY MEXICO 400 27 SEPTEMBER 1966 SUBJECT: MEXICO CITY SITEP! 266 SOUS CE h. A STIDENT DEMONSTRATION VKICK BEGAN AT 1700 HOURS ON 27 EXPTENSER WAS STILL UNDERVAY AS OF 1838 HOURS AT THE PLAZA DE LAS TRES CULTURAS IN MI .100 CITY. AS OF 1930 POWRS SIX SPEAKERS HAD ADDRESSED THE ASSEMBLED CROWD OF APPROXIMATELY THREE THOUSAND FIVE HUMDRED FERSONS. ALL SPEAKERS VOWED TO COSTINUE THE STUDENT STRUGGLE. EARLIER IN THE GAY THE MEXICAN GOVER MENT HAD DECIDED TO PERMIT THIS DEMONSTRATION TO BE HELD BECAUSE INFORMATION HAD BEEN RECEIVED TO THE EFFECT THAT STUDENTS WERE PL. MINING TO AMBOUNCE A RETURN TO CLASSIS AND A CESSATION OF VIOLENCE. AFTER YOUN PRESS REPORTS CONFIDENTIAL [b][3] APPROVED FOR RELEASE

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DATE: MAR 2002

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ASTICIPATED THAT STUDENIS WOULD APMOUNCE A TRUCE AT LEAST DUNING
THE ROSIN OF OCTOBER.

IFERE WERE NO ARMY TROOPS PRESENT.

2.

AN ATTEMPT BY STUDENTS OR 26 SEPTEMBER TO BURN A TRAFFIC DEPARTMENT NOTORCYCLE WAS FOILED.

J. THE NATIONAL STRIKE COUNCIL (CMM) IS STILL CONSIDERED
TO BE THE CONTROLLING ELEMENT ANOM ALL OF THE STUDENT GROUPS
(JCM, CMED, TROTSKYIST AND ESPARTACUS GROUPS) INVOLVED IN THE
STUDENT MOVEMENT. SINCE THE OCCUPATION OF THE UNIVERSITY BY
THE ARMY, HONEVER, THE CMM HAS BEEN DISPERSED AND SOME OTHER
GROUPINGS OF STUDENTS HAVE PROCEEDED WITH THEIR OWN PLANS AND
ACTIVITIES. STUDENTS CONSIDER THAT THEIR SIX DEMANDS ARE STILL
VALID, AND THEY INTEND TO ACHIEVE THEIR OBJECTIVES, REGARDLESS
OF HOW LONG IT TAKES OR WHAT MEASURES ARE NECESSARY.

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TITLE:	VIOLENCE GROWS IN MEXICO STUDENT CRISIS
Abstract:	
Pages:	0001
Pub Date:	9/27/1968
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Case Number:	
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VIOLENCE ERONS IN MEXICAN STUDENT CRISIS

The hard position on both sides, evident in the almost daily violence between students and police, have dissed prospects for quieting the students befor the opening Olympic ceremonies on 12 October.

The government is, however, fully determined to use as m'ny troops and as much force as needed to ensure peace during the games. Any school being used as a center for subversive activity will be occupied by troops.

Although the government has failed to stem the crisis, its tough action against the demonstrators has at least made it difficult for students to assemble and plan strategy. As students have banded in smaller groups, however, they have made increasing use of guns and Molotow cocktails, and have provoked more damaging confrontations with the authorities. At least

15 are reported deed, large numbers are wounded, and about 2.000 persons have been arrested. The strike movement also has spread to other areas of Mexico. Two provincial universities reportedly are occupied by army troops.

There are vague rumors that some former government officials are involved in the current disturbances.

current rumors and insecurity in the capital, following the electoral scandals earlier this year, have added significantly to the stresses on and within the political establishment.

Title:	SITUATION APPRAISAL" STUDENT CAPABILITY TO CAUSE DISRUPTION TO THE OLYMPICS
Abstract:	
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Keywords:	MEXICO DEMOSTRATIONS STUDENT RIOTS IPN STUDENT MARCH
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COUNTRY MEXICO

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1 OCTOBER 1968

SUBJ.CT SITUATION APPRAISAL. STUDENT CAPABILITY TO CAUSE

DISRUPTION TO THE OLYMPICS

SOUNCE

1. ON THE RASIS OF INFORMATION AVAILABLE AS OF

1 OCTOBER 1968. IT IS BELIEVED THAT THE MEXICAN GOVERNMENT
WILL BE ABLE TO MAIFTAIN INTERNAL ORDER TO THE EXTENT THAG
THERE WILL BE NO SERIOUS DISRUPTION OF THE OLYMPIC EVENTS
SCHEDULED TO TAKE PLACE BETWEEN 12-27 OCTOBER 1968.

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2. DURING EARLIER STAGES OF THE CURRENT PERIOD OF UNREST,

STODENT LEADERS AND THE NATIONAL STRINE COUNCIL CON) HAD SEIZED

UPON THE CLYMPICS AS A VULNERABILITY OF THE GOVERNMENT WHICH

EDULD BE EXPLOITED BY THE STUDENTS THROUGH THREAT AND INTINIDATION.

THE CHI DID, IN FACT, RESORT TO THIS MEANS OF APPLYING PRESSURE

IN AN OPEN LETTER TO PRESIDENT GUSTAVO DIAZ ORDAZ ON 16 SEPTEMBER.

CHE GOVERNMENT REJECTED THIS ATTEMPT AT SLACKMAIL, UNEQUIVOCALLY

AND EMPHATICALLY. MORE RECENTLY THE GNH HAS REPEATEDLY DENIED

HAVING ANY INTENTION OF INTERFERING WITH THE FORTHCOMING BAMES—

BUT THE CHH AGAIN ON THE NIGHT OF 38 SEPTEMBER STATED IT WOULD,

IF CIRCUMSTANCES WARRANTED, ROLD DEMONSTRATIONS DURING THE

CLYMPICS.

3. THE MEXICAN GOVERNMENT HAS NOT ONLY PROVIDED ASSURANCES
TO THE INTERNATIONAL OLYMPICS COMMITTEE THAT THE STUDENT SITUATION
IS UNDER CONTROL, BUT HAS DEMONSTRATED ITS DETERMINATION TO
MOTECT OLYMPIC INSTALLATIONS AND VISITING ATHLETES FROM ANY MARM
OR DISTRACTION. THE UNPRECEDENTED OCCUPATION OF THE NATIONAL
UNIVERSITY ON IS SEPTEMBER BY ARMY TROOPS WAS PROBABLY PROVOKED
BY THE UNWILLINGUESS OF STUDENTS TO ABANDON PLANS TO HOLD A
DEMONSTRATION AT OLYMPIC VILLAGE ON THE FOLLOWING DAY. ARMY



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PAGE 3 OF 5 PAGES

CONFIDENTIAL

TROOPS WERE STATIONED AT OLYMPIC VILLAGE UNTIL THE AFTERNOON OF 36 SEPTEMBER, AND IT WAS REPORTED THAT AGENTS OF THE OFFICE OF FEDERAL SECURITY WERE ASSIGNED ALSO TO THAT INSTALLATION. AT LEAST ONE STUDENT EMPLOYED AT OLYMPIC VILLAGE HAS BEEN ARRESTED FOR POSTING NAMOBILLS CALLING FOR THE RELEASE OF POLITICAL PRISONERS. IT MUST, THEREFORE, BE CLEARLY APPARENT TO ANYONE WHO HAS DESIGNS ON THE OLYMPICS AS A TARGET FOR SABOTAGE THAT THE GOVERNMENT WILL BROOK NO INTERFERENCE.

- A. IT IS LIKELY THAT, WHEREAS THE LEADERS OF THE STUDENT MOVEMENT PROFESS THEIR OPPOSITION TO ANY FORM OF VIOLENCE, THEY WILL NOT BE AVERSE TO MAKING THEIR PRESENCE KNOWN TO THE THOUSANDS OF FOREIGN VISIT'. S PRESENT IN MEXICO FOR THE OLYMPIC EVENTS, BARTICULARLY TO THOSE REPRESENTING THE WORLD'S NEWS SERVICES.
 ATTEMPTS TO PROPAGADIZE THE STUDENT MOVEMENT, BEFORE TELEVISION CAMERAS. FOR EXAMPLE, ARE TO BE EXPECTED.
- 5. ANY ESTIMATE, SUCH AS THIS ONT, OF THE LIKELIHOOD OF IN-TENTIONAL ACTS DESIGNED TO DISRUPT THE NORMAL COURSE OF EVENTS WEST TAKE INTO ACCOUNT THE PRESENCE OF RADICALS AND EXTREMISTS WHOSE BEHAVIOR IS IMPOSSIBLE TO PREDICT. SUCH PERSONS AND GROUPS DO EXIST IN MEXICO. THERE ARE, FOR EXAMPLE, TROTSKYISTS, MADISTS,



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	MOE	4 OF 5 PAGES	

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CASTROISTS, AMARCHISTS, AND OTHERS, AND JI HAS BEEN REPORTED THAT
CERTAIN OF THESE ARE PLANNING TO SABOTAGE THE OLYMPIC GAMES.
THEIR NUMERICAL STRENGTH IS NOT BELIEVED TO BE GREAT ENOUGH TO
ENABLE THEM TO CREATE SERIOUS DISTURBANCES; BUT THEY DOUBTLESS
HAVE LIMITED CAPABILITE, AND PROBABLY THE INTENTION, TO CAUSE
DISRUPTION TO PUBLIC UTILITIES SUCH AS ELECTRIC POWER AND TELEPHONE
SERVICES, AND TO ENGAGE IN ANY SIMILAR ACTS OF MISCRIEF AT SOME
DISTANCE FROM THE SCENE OF OLYMPIC ACTIVITIES WHERE THE RISK OF
EXPOSURE IS CONSIDERABLY REDUCED. THE MEXICAN GOVELNMENT IS
FAMILIAR WITH TACTICS SUCH AS THESE, AND IS

TAXING
HEASURES TO PROTECT THE MORE VITAL INSTALLATIONS.

6. THE MEXICAN GOVERNMENT, IN PREPARING FOR ITS ROLE AS HOST FOR THE NINETEENTH OLYMPIAD, HAS ACCOMPLISHED WHAT MANY SKEPTICS THOUGHT IMPOSSIBLE. THE EVENT IS OF THE WIMOST IMPOSTANCE TO THE GOVERNMENT AND IO MOST PEXICANS, AND THIS FACT IS NOT LOST ON THOSE WHO MIGHT CONSPIRE TO DESTROY A WITAL WORK. BUT THESE CONSPIRATORS KNOW ALSO THAT THE SAME DEGREE OF DEDICATION THAT HAS BEEN DEMONSTRATED IN CREATING THE OLYMPIC SCENE WILL BE APPLIED IN DEFENDING IT.

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CONFIDENTIAL

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CONFERMIAL

Title:	MEXICO CITY SITREP (DELETED)			
Abstract:				
Pages:	0003			
Pub Date:	10/3/1968			
Release Date:	6/19/2002			
Keywords:	MEXICO DEMOSTRATIONS STUDENT RIOTS IPN STUDENT MARCH			
Case Number:	F-1995-00272			
Copyright:	0			
Release Decision:	RIPPUB			
Classification:	U			

COMPOUNTAL Intelligence Information Cable THE IS AN EXPONENTION REPORT. NOT PRINTLY EVALUATED UNTELLIBERCE. 0309027 WELLT AT THE DEST 3 OCTOBER 1968 ALC: 1818 SULL SULLE DOUNTRY'S MEXICO DOI: - 3 OCTOBER 1968 MESIECT: MESICO CITY STREP ... D. 1885 - 12 . 10 - 1884 15-1. THIS IS AN INTERIM REPORT ON THE CLASH BETSEEN STUDENTS AND MEXICAN ARMY TROOPS IN MEXICO CITY SURING THE EVENING OF 1.5.1数 2.5.60种2型 € OCTOBER 1968. ನಕ್ಕಳು ನಿರ್ಮ

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THE SENS CLE. LES ...

A REARBY RED CROSS INSTALLATION AND HAD COUNTED ONE HUNDRED TWENTY SEVEN WOUNDED STUDENTS AND THIRTY WOUNDED SOLDIERS, BUT THAT THE MAJORITY OF WOUNDED SOLDIERS HAD BEEN TAKEN TO THE MILITARY HOSPITAL. THE GENERAL OFFICER COMMANDING A PARATROOP BATTALION THAT WAS ERSAGED IN THE ENCOUNTER RECEIVED A BULLET WOUND IN THE CHEST, AND HE IS NOT EXPECTED TO SURVIVE.

WAS A PREMEDIATED PLOT ON THE PART OF STUDENTS TO ENTRAP THE ARMY TROOPS. THE FIRST SHOTS WERE FIRED BY THE STUDENTS WHO HAD TAKEN UP POSITIONS IN THE EDIFICIO CHIMUAHUA, AN APARTMENT BUILDING IN THE PLAZA. SOME OF THE STUDENTS WERE IN POSSESSION OF AUTOMATIC WEAPONS. ARMY TROOPS WHO LATER ENTERED THIS BUILDING DISCOVERED MANY WEAPONS AND CONSERVED E QUANTITIES OF AMMUNITION.

HATTOHAL HEYS SERVICE,

I UTER-

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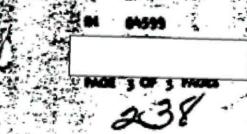
EXPRESSED THE OPINION THAT THIS WAS A PREMEDITATED

ENCOUNTER PROVOKED BY THE STUDENTS.

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HLY A SCATTERING OF TROOPS WAS PRESENT ON THE NEWS

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FRIMES OF THE DEMONSTRATION WHEN FIRING FROM THE STUDENTS DEGAN. BUT ARMY REINFORCEMENTS ARRIVED IMMEDIATELY THEREAFTER.

3.1		
	MOST OF THE STUDENTS PRESENT	UN INE
SPEAKERS*	PLATFORM WERE ARMED, ORE WITH A SUB-MACH	MEGUN , AND
THAT THEY	STARTED SHOOTING WHEN TROOPS HOVED IN TO	DISPERSE
THE GATHER	RING.	HAT TROOPS
YERE DALY	AMSVERING THE FIRE FROM THE STUDENTS.	

6. FROM ALL INDICATIONS, THIS IS THE MOST SERIOUS INCIDENT THUS FAR IN THE RASH OF STUDENT DISTURBANCES WHICH BEGAN IN LATE JULY. IT IS NOT POSSIBLE TO PREDICT THE IMPACT OF THIS EVENT ON THE GLYMPIC GAMES WHICH ARE TO BEGIN ON 12 OCTOBER, BUT IT IS REASONABLE TO ASSUME THAT IT MIGHT CAST SOME DOUBT ON THE CAP-IBILITY OF THE MEXICAN GOVERNMENT TO MAINTAIN THE DEGREE OF CROER WHICH VISITORS WOULD NORMALLY EXPECT TO ENJOY ON SUCH AN OCCASION.

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Title:	(ESTIMATED PUB DATE) ANSWERS TO QUESTIONS RAISED BY WHITE HOUSE CONCERNING STUD
Abstract:	
Pages:	0003
Pub Date:	10/3/1968
Release Date:	12/8/1999
Keywords:	MEXICO WHITE HOUSE DISTURBANCES STUDENT ANSWERS QUESTIONS AGUAYO SERGIO
Case Number:	EO-1998-00289
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

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Mandatory Review
Case # NLJ 98-251
Document # 740

SUBJECT: Answers to Questions Raised by White House Concerning Student Disturbances in Mexico

1. The following is currently available information on the questions raised on 7 October:

A. Question: Mexican students were using new rifles with numbers filed off supplied by "Chinese sources". Is there any verification?

E0 12958 3.4(b)(1)>25Yrs E0 12958 3.4(b)(6)>25Yrs (c)

Answer: There is no verification to date that such rifles were being used.

B. Question: Did or did not individuals from 6012958 outside Mexico infiltrate the country just prior to 3A(b)(6)>25Yrs the riots and take part? If so, where were they from and who did they represent?

Answer: The only confirmed information on individuals from outside Mexico who possibly might have been involved in the riots involved two French students, one Chilean, one Puerto Rican, and one American. The latter three were arrested on 26 July and were deported. The French students were not apprehended. It is not known whether these individuals represented themselves or international organizations. Although the Mexican press continually plays the theme of foreign involvement, no conclusive evidence to this effect has been presented to date.

C. <u>Question</u>: What faculties of the university were involved in the rioting and to what extent?

Answer: All faculties of the National Autonomous University had been involved to some extent. The National Strike Committee consisted of over 200 members representing the National Autonomous University, the

APPROVED FOR RELEASE DATE: DEC 1999

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National Polytechnic Institute, the National Agricultural College, Teachers Colleges, Vocational and Preparatory Schools. At the National University the most active faculties at the beginning of the disturbances were those of Economics, Law, Philosophy, and Political Science. More recently the Science faculties and the Polytechnic schools have become more involved. Not to be excluded from involvement in student disturbances were professors who formed coordination committees of teachers representing most of the aforementioned schools and colleges.

D. Question: What organizations outside the academic field proper took part or furnished support in money or arms and how much support -- in arms and money?

Answer: no conclusive information concerning support of arms to the students. The one unconfirmed report mentioned in the addendum to the paper on the Mexican student crisis is the only indication of appreciable amounts of financial support.

EO 12958 3.4(h)(1)>25Yrs (C) Communist Party, the Mexican Communist Youth, the National Democratic Student Central, and the National Union of Mexican Women have given "moral" support to the student movement and have participated in the collection of funds. It is not possible to determine the amount of money collected by the students who have resorted to periodic collection campaigns throughout the city.

Mexican congress

studied the cost of student trouble from 26 July to 26 September and found it to be over "4 million pesos" (320,000 U.S. dollars) for advertisements, signs, food, support, and so forth.

E. Question: Verify if possible the acts of the Olympia Brigade as reported by the Bureau.

EO 12958 3.A(b)(1)>25Yrs (C)

Answer:
a small group of students at the National Autonomous
University of Mexico advised
the Trotskyists had formed a "Brigade" which was broken
down very secretly into small compartmented cells of three
to five students. Some students call this group the
"Brigade Olympia".

the Brigade
plans to dynamite electric transmission centers and

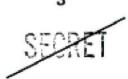




transformers at key places in Mexico City in order to interfere with Olympic events; dynamite certain bridges on the circumferential highways at times which would cause the greatest difficulties for Olympic events; seize some of the buses being used for transportation of Olympic athletes; and capture some famous athletes who are participating in the Olympics.

2. Additional information will be forwarded as it becomes available.

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Title:	MEXICO CITY (DELETED)
Abstract:	
Pages:	0002
Pub Date:	10/3/1968
Release Date:	12/9/1999
Keywords:	MEXICO FIGHTING ARMY TROOPS MEXICO CITY STUDENTS AGUAYO SERGIO
Case Number:	EO-1998-00289
Copyright:	0
Release Decision:	RIPPUB
Classification:	U



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Document # 30

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E0 12958 3.4(h)(1)>25Yrs (C)

REPORT CLASS CONFIDENTIAL

COUNTRY

MEXICO

DOI

2-3 OCTOBER 1968

SUBJECT

MEXICO CITY

ACQ

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SOURCE

E0 12958 3.4(b)(1)>25Yrs

APPROVED FOR RELEASE DATE: DEC 1999 1. FIGHTING AGAIN BROKE OUT IN THE PLAZA DE LAS TRES CULTUURAS IN MEXICO CITY AT 0130 HOURS ON 3 OCTOBER AND LASTED UNTIL 0300 HOURS, DURING WHICH TIME ARMY TROOPS ROUTED SNIPERS FROM APARTMENT BUILDINGS IN THE AREA.

2. CASUALTIES SUFFERED DURING THE EVENING AND EARLY MORNING HOURS INCLUDED TWENTY FOUR CIVILIANS DEAD, MANY OF WHOM WERE STUDENTS, AND ONE HUNDRED THRIRTY SEVEN CIVILIANS WOUNDED; EIGHT SOLIDIERS KILLED, AND AN UNKNOWN NUMBER OF SOLDIRES WOUNDED, INCLUDING GENERAL JOSE HERNANDEZ, TOLEDO, COMMANDER OF A PARATROOP BATTALION: THREE AGENTS OF THE OFFICE OF FEDERAL SECURITY (DFS) WOUNDED, AND FOUR POLICE OFFICERS WOUNDED.

THRE WERE MORE FATALITIES AMONG THE ARMY TROOPS
BECAUSE THEY WERE EXPOSED TO SNIPER FIRE FROM THE UPPER FLOORS
OF NEARBY BUILDINGS. SOME OF THE FIRING WAS FROM AUTOMATIC
WEAPONS.)

3. DURING THE COURSE OF THE EVENING OF 02 OCT AND THE EARLY MORNING HOURS OF 3 OCTOBER, PERSONS WERE ARRESTED, MANY OF WHOM HAD BEEN ARRESTED PREVIOUSLY DURING EARLIER DEMONSTRATIONS BUT HAD SUBSEQUENTLY BEEN RELEASED.

DISSEM: STATE ARMY NAVY AIR FBI CINCSO CINCLANT

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Title:	MEXICO CITY SITREP (DELETED)		
Abstract:			
Pages:	0003		
Pub Date:	10/4/1968		
Release Date:	6/19/2002		
Keywords:	MEXICO DEMOSTRATIONS STUDENT RIOTS IPN STUDENT MARCH		
Case Number:	F-1995-00272		
Copyright:	0		
Release Decision:	RIPPUB		
Classification:	U		

Intelligence Information Cable

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DOI NOT 12-8 OCTOBER 1968 TO WELL MIN SECURE TOCALION

SUBJECT: MEXICO CITY SITREP

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THEIR ENCOUNTER WITH GOVERNMENT: FORCES ON THE EVENING OF 2:45

OCTOBER; AND HAMY ARE TALKING OF TAX: NG REFRISAL MEASURES 0. 20

AGAINST THE BOVERNMENT. THERE HAS BEEN SOME DISCUSSION: 6.7

PLANS TO SABOTAGE THE OLYMPICS OFFICE LOCATED ON DIVISION [8:1]

DEL BORTE, ON THE WIGHT OF EITHER 3 OR 4 OCTOBER.

USING WOLOTOW COCKTAILS: DISCUSSION HAS INCLUDED PLANS FOR ...

SINILAR ACTION AGAINST GOVERNMENT-OFFICES AND SPECIFIED): 4225

ON EXTREM OF THESE WIGHTS. THESE DISCUSSIONS ARE TAKING PLACET.

WITHIN CERTAIN OF THE FIGHT COMMITTEES AND STUDENT BRIGADES.

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PETERIN CENTRALISTE FEBRUARION WATERES, SAN SPECIAL PARTONESS.

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NOT BELIEVE THAT THESE

OF THE CHO.

SYNCE AREAS SURROUNDING THE NATIONAL POLYTECHNIC INSTITUTE (IPN) AND THE PLAZA DE LAS TRES CULTURAS ARE GUARDED
BY RIOT POLICE AND ARMY TROOPS. RESIDENTS ARE REQUIRED TO IDENTIFY THEMSELVES ON ENTERING THESE AREAS. A HIGH STATE OF VIGILANCE EXISTS AMONG STUDENTS AT THE NATIONAL UNIVERSITY TO PROHIBIT THE ENTRANCE OF POLICE OR SECURITY ABENTS. POLICE OFFICERS ARE VATCRING THE AREAS OF THE CITY FREQUENTED BY STUDENTS, AND THEY HAVE BEEN ORDERED TO ARREST KNOWN LEADERS OF THE CHM, MANY OF WHOM WERE PICKED UP ON 2 OCTOBER. THE REMAINING LEADERS OF THE CHM ARE TO NEET AT A SECRET LOCATION ON EITHER 3 OR 4 OCTOBER, AFTER JHICH THEY WILL INFORM THE FIGHT COMMITTEES OF THEIR DECISIONS FOR FUTURE ACTION.

MANY STUDENTS ARE CONVINCED THAT THE GOVERNMENT

PERMITTED THE DEMONSTRATION TO TAKE PLACE ON 2 OCTOBER TO

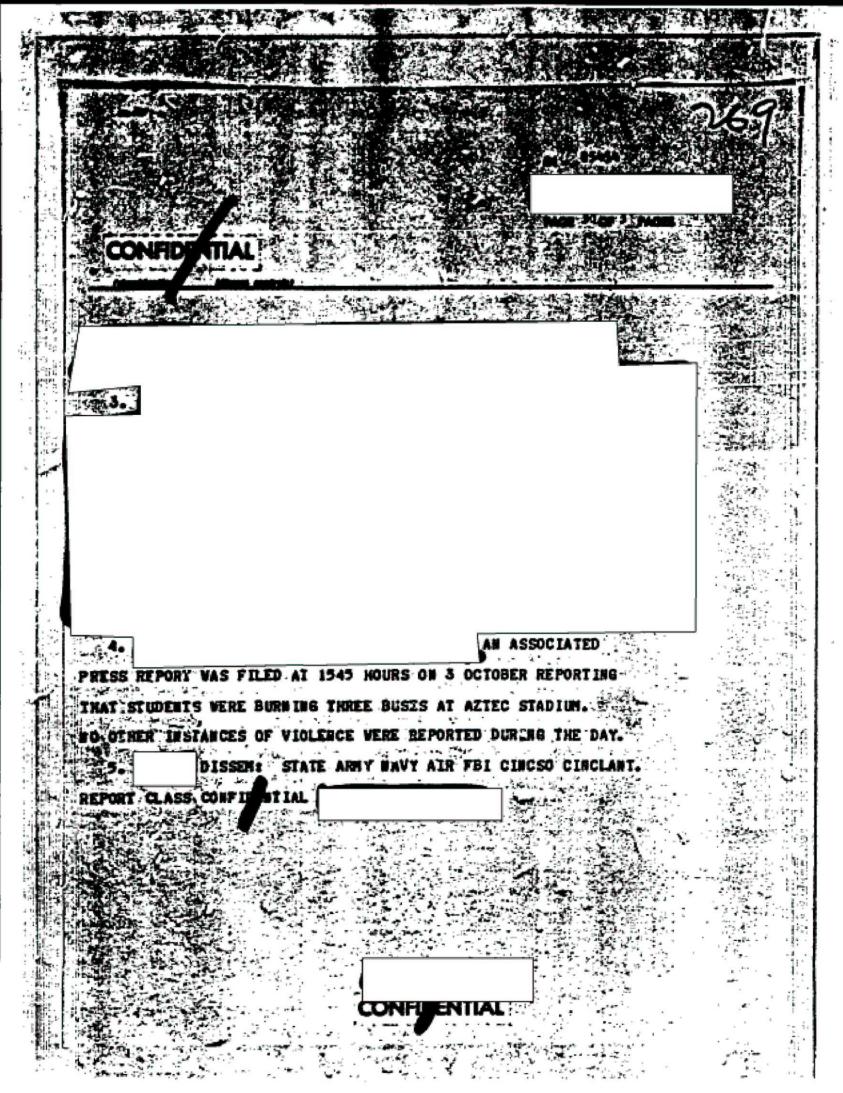
FACILITATE THE ROUNDING UP OF CHH LEADERS, TO TERRORIZE THE

STUDENTS AND CAUSE THEN TO ABANDON THEIR STRUGGLE.

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FACE 1 TO

CONDENTIAL



Title:	A RENEWED VIOLENCE IN MEXICO
Abstract:	
Pages:	0001
Pub Date:	10/4/1968
Release Date:	6/12/2002
Keywords:	MEXICO MARTYRS MEXICAN GOVERNMENT OLYMPIC RENEWED VIOLENCE
Case Number:	F-1995-00272
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Release Decision:	RIPPUB
Classification:	U

APPROVED FOR RELEASE DATE: MAR 2002

A RENEWED VIOLENCE IN MEXICO

Violence this week reached a level that raises doubt about the Mexican Government's capability to keep the Olympic events and the many foreign visitors insulated from its domestic crisis. The long firefight between students and army troops on the night of 2 October left many dead and hundreds wounded, at least doubling the previous casualties in the two-month student campaign.

Several trained observers at the scene reported that the encounter was a premeditated provocation by the students, who apparently were well armed. Student strike leaders, perhaps believing they had already won a significant victory in their reoccupation of the national university after the troops withdrew, pledged to continue the campaign against the government and broadened their demands. They now appear determined to try to force cancellation of the Olympics, which they recognize

as of the utmost importance to the government.

The government, for its part, is so determined to prevent disruption of the games and to protect the visitors that security forces are likely to overreact against student provocations. The potential for further violent incidents is therefore high.

The "martyrs" created during the past week will probably provide a new rallying point for university students in the provinces, where several demonstrations have been staged in support of the Mexico City strikers. All military zone commanders now have authority to move against disorderly students in the provinces without checking with the capital. One student demonstrator was killed by police this week in the state of Veracruz, and further trouble is expected in other states as well as in the capital city. I

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Title:	ADDENDUM TO "MEXICAN STUDENT CRISIS," 4 OCTOBER 1968		
Abstract:			
Pages:	0003		
Pub Date:	10/5/1968		
Release Date:	9/4/2002		
Keywords:	MEXICAN STUDENT CRISIS COMMUNIST GROUP MEXICO CITY ADDENDUM		
Case Number:	EO-2002-00068		
Copyright:	0		
Release Decision:	RIPPUB		
Classification:	U		

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Mandatory Review
Case & NLJc2-101
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CENTRAL INTELLIGENCE AGENCY Directorate of Intelligence 5 October 1968

MEMORANDUM

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DATE: SEF 2002

SUBJECT: Addendum to "Mexican Student Crisis,"

SUMMARY

There is no hard evidence that either the Cuban or Soviet embassies in Mexico City masterminded the current disturbances despite repeated allegations to that effect by the Mexican Government. We have unconfirmed reports that they have given moral and possibly some financial assistance, however, and there is evidence that many known Mexican Communists have openly participated in the riots.

Trotskyist and Castroite groups have all participated in

- in the disorders.

 As in other countries, the extremists have capitalized on the disorders and members of the Mexican Communist Party

 (PCM), the Communist Youth (JCM), the Communist-oriented National Democratic Students' Central (CNED), and the
 - 2. The PCM has gone on record as endorsing the student demands, but party leaders have privately stated that none of their principal functionaries should become directly involved in the violence. Known Communist students are associated with the National Strike Council and other organizations that have arisen during the disturbances, as are Trotsky-ists and members of the other Communist groups. The JCM has also instructed representatives to state organizations to participate in any local student activities in support of the Mexico City protests.

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6. The strongest circumstantial evidence that the students have received financial aid during the disturbances is the appearance of extensive ads in Mexico City dailies.

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which would cost many thousands of dollars. Funds could easily come from domestic opponents of the Diaz Ordaz government, however, in view of the disgruntlement of some former officials in both party and government who have fallen from favor. The students similarly would have little difficulty in obtaining their weapons stocks from ample domestic sources.

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Title:	EXICO CITY SITREP (DELETED)		
Abstract:			
Pages:	0002		
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Release Date:	6/19/2002		
Keywords:	MEXICO DEMOSTRATIONS STUDENT RIOTS IPN STUDENT MARCH		
Case Number:	F-1995-00272		
Copyright:	0		
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Classification:	U		

Intelligence Information Cable 107603

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SOURCE :										

STUDENT MOVEMENT WITHIN THE PAST FORTY-EIGHT HOURS HAS BEEN THE EXTENSIVE PRESS COVERAGE OF A REVS CONFERENCE AT WHICH SOCRATES AMADO CAMPOR LEMUS, ONE OF THE LEADERS OF THE TYTIONAL STRIKE COUNCIL (CNH), CHARGED THAT PROMINENT MEXICAN POLITICIANS HAD BEEN USING THE STUDENT MOVEMENT FOR THEIR OWN POLITICAL PURPOSES. CAMPOS LEMUS CHARGED THAT WRITER ELENA GARRO DE PAZ HAD ATTEMPTED TO SERVE AS AN INTERMEDIARY BETWEEN THE STUDENTS AND A GROUP CONSISTING OF CARLOS A. MADRAZO, FORMER PRESIDENT OF THE INSTITUTIONAL REVOLUTIONARY PARTY (PRI): HEGSERTO ROMERO PEREZ, SECRETARY TO

(C) (P)(3) (P)(1)

APPROVED FOR RELEASE
DATE- MAR 2002



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MOR T OF T PAGES

CONFICENTIAL

FORMER PRESIDENT ADOLFO LOPEZ MATEOS; AND BRAULIO MALDOHADO SANDEZ. FORMER GOVERNOR OF BAJA CALIFORNIA.

- 2. ALL THOSE IMPLICATED BY CAMPOS LEMUS DENIED EMPHATICALLY IN PRESS STATEMENTS ON 7 OCTOBER THAT THEY HAVE BEEN INVOLVED IN ANY WAY IN THE STUDENT MOVEMENT. ELEMA GARRO, IN TURN, ACCUSED JAVIER BARROS SIERRA, RECTOR OF THE NATIONAL UNIVERSITY, AND A BROUP OF LEFTIST PROFESSORS OF BEING RESPONSIBLE FOR INSTIGATING THE MOVEMENT.
- J. LEFTIST FORMER PRESIDENT LAZARO CARDENAS DEL RIO, IN A
 PRESS RELEASE ON 4 OCTOBER, DEPLORED THE VIOLENCE WHICH HAS TAKEN
 PLACE DURING THE STUDENT MOVEMENT, AND EXPRESSED THE CONVICTION
 THAT "FOREIGN ELEMENTS," WHICH HE DID NOT FURTHER IDENTIFY, "ARE
 RESPONDING TO OUTER INTERESTS, WELL KNOWN FOR THEIR INFILTRATION
 METHODS...."

DISSEM: STATE ARMY HAVY AIR FBI CINCSO CINCLAST.

REPORT CLASS CONFIDENTIAL

CONFILENTIAL

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Intelligence Information Cable

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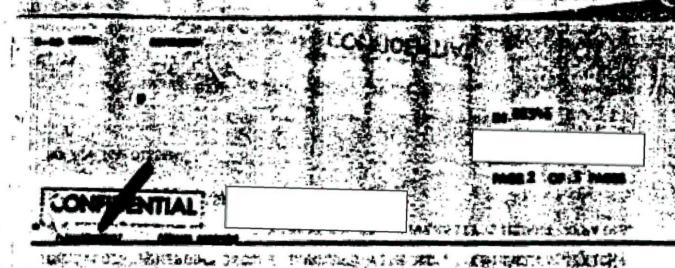
DOI . 3-8 OCTOBER 1968

SUBJECT: MEXICO CITY SITREP

SOURCE :

1. MANY SIQUENTS REJECT THE ACCUSATIONS OF SOCRATES AMADO AMPOS LEMUS THAT MEXICO POLITICAL FIGURES HAVE BEEN INVOLVED IN THE STUDENT HOVEMENT. THESE STUDENTS HAVE SUSPECTED FOR SOME TIME THAT CAMPOS LEMUS IS AN AGENT OF THE GOVERNMENT, AND THAT HE WAS INSTRUCTED TO MAKE STATEMENTS TO THE PRESS IMPLICATING THE POLITICIANS. THEY CONSIDER THAT CARLOS A. MAURAZO, ELENA GARRO DE PAZ AND RUMBERTO ROMERO PEREZ SHARE IDEOLOGIZS DIFFERENT FROM THOSE OF THE STUDENT MOVEMENT AND OF CAMPOS LENUS, AND THAT THEY WOULD NOT THEREFORE BECOME INVOLVED WITH HIM.





RECONSTITUTED, AS VILL BE THE COORDINATING COMMITTEES AND THE STRIKE COMMITTEES. THE ORGANIZATION OF THESE BODIES IS TO REMAIN THE SAME, BUT NEW MEMBERS WILL BE APPOINTED, AND CARE WILL BE TAKEN TO EXCLUDE MEMBERS WHO ARE ADVOCATES OF VIOLENCE AND TROSE SUSPECTED OF BEING TRAITORS TO THE STUDENT CAUSE. THE CHI MAS STATED THAT THE WORK OF THE POLITICAL BRIGADES AMONG WORKERS AND PEASANTS IS TO BE INTERSIFIED.

HATIONAL UNIVERSITY (UNAN) OF HOLDING A STORT MEETING ON 8 OCTOBER IN ONE OF THE AUDITORIUMS TO COMMEMORATE THE FIRST ANNIVERSARY OF THE DEATH OF CHE GUSVARA, BUT NO DESIGNATE DESIGN HAS BEEN PEACHED.

UNAM CALLED BY THE CHH ON THE AFTERNOON OF TO OCTOBER. SPEAKERS

LEVOTED ROST OF THEIR TIME TO ATTACKING CAMPOS LEXUS FOR LEADING.

THEN DOWN THE WRONG PATH.

COMPENTS ACCORDING TO PRESS

REPORTS ON B OCTOBER, OTHER STUDENT NEETINGS WHICH HAD BEER SCHEDULED TO TAKE PLACE AT UNAM AND AT THE NATIONAL POLYTECHNIC INSTITUTE (IPN)

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ON 7 OCTOBER WERE CANCELLED WHEN LEADERS SAV THAT STUDENTS FAILED

5. OH ABOUT 3 OCTOBER, A GROUP OF STUDENT LEADERS FROM THE NATIONAL POLYTECHNIC INSTITUTE VISITED THE OFFICES OF AGOSTIN YAMEZ, NEWISTER OF EDUCATION, WITH THE PROPOSITION THAT IF YAMEZ WOULD ARRANGE FOR THE RELEASE OF ALL IPM STUDENTS NOW BEING DETAINED THE STUDENTS AT IPM WOULD THEN RETURN TO CLASSES. YAMEZ DID NOT GRANT THEM AN AUDIENCE, BUT TOLD THEM, THROUGH ONE OF HIS AIDES, TO RETURN ON A NOVEMBER. (SOUNTE: EDUCATION MINISTRY OFFICIAL WHOSE REPORTING HAS BEEN RELIABLE). (SOUNCE COMMENT: FOUR NOVEMBER IS THE DATE WHICH THE MINISTRY OF EDUCATION HAS ANNOUNCED FOR THE RESUMPTION OF CLASSES. YAMEZ HAS NO INTENTION OF ACCEPTING THE STUDENTS' PROPOSAL, AND HE PUT THEM OFF IN THE HOPE THAT BY THAT TIME THE STUDENT PROBLEM WOULD BE RESOLVED).

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Title:	MEXICO CITY SITREP (DELETED)
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THE MEXICO CITY PRESS CONTINUES TO SPEAK HOPEFULLY OF
THE REACHING OF AN ACCORD SETVEEN THE GOVERNMENT AND STUDENTS.

THE MENS OF 16 OCTOBER LISTED JORGE DE LA VEGA AND ANDRES CASO
AS THE TWO PRESIDENTIAL REPRESENTATIVES WHO HAVE BEEN HOLDING
TALKS WITH STUDENTS AT A RESTAURANT AND AT THEIR HOMES. THE
REOPERING: OF THE SCHOOLS OF THE NATIONAL UNIVERSITY (UNAM) WILL
THE MODERNESS SOON, ACCORDING TO A STATEMENT FROM THE UNIVERSITY

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THE TALKS BETWEEN STUDENT AND PRESIDENTIAL ALPRESENTA-TIVES HAVE PRODUCED BOTHING THUS FAR, AND THERE IS LITTLE CHANCE THAT ANYTHING WILL COME OF THEM. THE GOVERNMENT'S ATTICUDE, AS EXPRESSED BY THE PRESIDENTIAL REPRESENTATIVES, IS ONE OF RESENT-MENT THAT THE STUDENTS ARE STATING THEIR VISHES AS "DENANDS". IN RESPONSE TO THE STUDENT DELAND THAT ALL PERSONS. STUDENTS OR OTHERVISE. DETAINED SINCE 26 JULY BE RELEASED. THE GOVERNMENT HAS REPLIED THAT IT WILL RELEASE ONL'S THOSE WHO ARE FOUND NOT TO HAVE COMMITTED ANY UNLAWFUL ACT. THE STUDENTS INTERPRET THIS TO MEAN THAT ALL LEADERS OF THEIR MOVEMENT WILL BE CHARGED WITH UN-LAWFUL DEEDS SIMPLY BECAUSE OF THEIR I MUOLVEHENT WITH THE MOVE-MENT. THE STUDENTS INTEND TO HOLD FIRM ON THIS DEMAND. WITH RESPECT TO THE REMOVAL OF TROOPS AND POLICE FORM SCHOOLS STILL BEING OCCUPIED. THE GOVERNMENT HAS AGREED. BUT HAS STATED THAT IT WILL RETURN THE SCHOOLS WHEN IT IS CONVENTENT TO DO SO. THE BOVER MENT HAS AGREED TO DISCONTINUE PAIRCLS BY SOLDIERS AND RIOT POLICE IN THE AREAS VIERE THE HOST VIOLENT DISORDERS HAVE TAKEN PLACE, DUT INIS THEY SAY CARROT BE DONE QUICKLY, ONLY AFTER THE SITUATION HAS "SORWALIZED COMPLETELY.", WITH RESPECT TO THE DEMAND THE A CESSATION OF COVERMENT REPRESSION. THE GOVERMENT DENIES

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THAT ANY REPRESSION EXISTS, AND THAT THEPEFORE THERE IS NOTHING TO CONCEDE.

PENT REPRESENTATIVES INSIST THAT PRESIDENT GUSTAVO DIAZ ORDAZ
RESPONDED TO THESE. BY OFFERING TO OPEN A DIALOGUE WITH THE STUDENTS
WHICH THE STUDENTS DID NOT ACCEPT.

S. A STUDENT BRIGADE HAS BEEN SZNT TO MERIDA, YUCATAN, TO EMLIST SUPPORT OF STUDENTS THERE, AND ANOTHER BRIGADE IS BEING DISPATCHED TO THE WORLD YOUTH CAMP AT DAXTEPEC, THE STATE OF MORELOS, TO SEEK SUPPORT FROM THE YOUTH OF ALL COUNTRIES WHO ARE PRESENT THERE.

WITH THE COLTURAL OLYMPIC PROGRAM, OPENED ON 8 OCTOBER AND WILL
BE IN OPERATION THROUGH THE PERIOD OF THE OLYMPIC GAMES IN MEXICO.
YOUTHS DETWEEN THE P.S OF FIFTEEN TO TWENTY YEARS, FROM THIRTYFIVE TO FORTY COUNTRIES, ARE PARTIC PATING IN THE ACTIVITIES THERE,
INCLUDING EXCURSIONS TO VARIOUS NEARBY AREAS. OF THE TWELVE TO

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SETTO INC. - SURESET OF THE PERSON NEWS OF THE SHE SHEET IS HOPEHR BEEN OFF EASTER BUT A CARPAGER AND CONTRACTOR AND PAGE "4 OF 4 PAGES - - - DE - 2 16 THE THE CONTRACTOR CONTRACTOR OF THE PROPERTY OF THE CONTRACTOR OF water toward the fact that the second of the second MARKETT OF THE ga ngangga an angga ngat an aggar FROM THE UNITED STATES). MYDZ ID H. ISSEM: STATE ARMY MAVY AIR FBI CINCSO CINCLANT. CONFLETATI AL PORTER AS ECCEPTION OF SAME AND ASSESSMENT OF SAME ASSESSM ANT CREATE SECRETARIES AND MANAGED SEC. TO THE PRESENCE OF THE PROPERTY OF THE THE MECHANIST IN LINES OF REPORT OF THE PERSON OF THE PERS NAME SEASTRUCTURE ERELAS LANCE CONTRACTOR SERVICES CONTRACTOR CONT ON THE BAK RESENDED DESCRIBE IN THE "THE MEET COAT". TO CONCOLE. MAT ARY REPRESSION EXISTS? AND THIS THERE THE CHEER IS MI HARETH CISSEN 2262-175-17 07 55

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FARLICULARLY DURING THE INAUGUEAL CEREMONY ON 12 OCTOBER WHICH WILL

EX ATTENDED BY PRESIDENT GUSTAVO DIAZ ORDAZ, AND THAT THEIR EFFORTS

TO CREATE DISTURBANCES WOULD PROBABLY BE RESTRICTED TO THE SHOUTING

OF CAT-CALLS AND BOOS DURING THE PRESIDENT'S SPEECH.

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CEREMONY TO PERSONS WOMEN TO BE LOYAL TO THE REGIME TO INSURE THAT
THE PRESIDENT'S SPEECH WILL BE APPLAUDED, AND TO REDUCE THE NUMBER
OF TICKETS AVAILABLE TO STUDENTS.

THE ACCUSATIONS OF STUDENT SOCRATES ANADO CAMPCS LEMUS

AND THEIR SUBSEQUENT AMPLIFICATION BY ELEMA GARRO DE PAZ ARE BEING

INTERPRETED BY MEXICAN INTELLECTUALS AS MOVES ON THE PART OF THE

CONSUMNITY TO THREATEN AND FRIGHTS PERSONS OF STANDING IN THE

CONSUMNITY IT THINKS ARE IN EFFECTIVE OPPOSITION TO IT. ELEMA

GARRO'S DESCRIPTION OF THE INTELLECTUAL COMMUNITY AS LEFT—

LEANING AND ANTI-GOVERNMENT, AND THE REGIME'S STATEMENT THAT

HER ACCUSATIONS WILL BE CAREFULLY FOLLOWED UP, HAVE LED HANY

DISTELLECTUALS TO CONCLUDE THAT WRITERS, TEACHERS, PAINTERS HAY

ES SUBJECTED TO GOVERNMENT WITCH RUNTING JUST AS SOON AS THE

TYPICS APE FINISHED AND THE GOVERNMENT IS ABLE TO DEAL WITH

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DISSIDENT ELEMENTS OUT OF THE GLARE OF THE WORLD PRESS. AS A RESULT, SOME OF MEXICO'S MOST PROMINENT ARTISTS AND WRITERS ARE SENDING OUT FEELERS FOR JOBS OUTSIDE THE COUNTRY. IF GOVERNMENT PRESSURE ON THE INTELLECTUALS CONTINUES OR IS STEPPED UP AFTER THE OLYMPICS, A FLIGHT OF SUCH PERSONS CAN BE EXPECTED. THE SITUATION IN THIS REGARD IS SIMILAR TO THE MERVOUSNESS TO BE OBSERVED IN THE MONEY MARKET; BRAINS AND MONEY PREPARED TO FIND MORE CONGENTAL SURROUNDINGS IF THE SITUATION WARRANTS.

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MEXICAN GOVERNMENT READIES FOR MORE STUDENT TROUBLE

Student actions over the next week will show whether the Mexican Government's crackdown before the Olympics has had the desired effect of cowing the students or whether their movement is indeed a new political force to be reckoned with.

The government is cautiously pursuing a campaign to get the students back to classes by 4 November, and so far has not reacted to the students' insistence that the strike will go on until their demands are met. Student strike leaders are still pressing for the release of those detained in connection with the demonstrations that began in July and an end to "government repression."

In spite of their public optimism that a cordial solution to the student-government conflict is in view, officials are concerned over the possibility of renewed disruptions and are preparing for it. Two 1,500-man army units are in training for use in the event of further violence, and the government is likely to move to a harsh policy of repression if its moderate conciliatory tactics fail.

The "new left" - style leaders within the student movement
probably wish to provoke the government into a stiffer attitude
that would increase resentment
against the Diaz Ordaz administration and dilute the good will generated during the successful and
widely acclaimed Olympic period.
The student strike council has
used those two weeks to reorganize, to proselytize among workers
and peasants, and to prepare a
campaign against a return to
classes.

Several plans for a massive, peaceful demonstration have been reported, but student leaders may postpone their major antigovernment effort until 5 November, when primary and secondary school teachers have been called to strike for higher wages. Should the strike council and the important teachers union join forces, the movement would pose a far more serious challenge to government authority than it did before the olympics.

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CENTRAL INTELLIGENCE AGENCY Directorate of Intelligence 30 November 1968

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INTELLIGENCE MEMORANDUM

The Situation in Mexico

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- 1. reported on 30 November that there is little likelihood that events in Mexico will prevent President Diaz Ordaz from meeting with President Johnson as scheduled on 13 December.
- 2. The most serious current domestic problem is the student strike which began on 26 July. A settlement is still not definite but there is growing support among students, especially at the National University, to return to classes. Hard-line students at the National Polytechnic Institute also in Mexico City are still holding out and the strike at that school is completely effective.
- 3. Last Wednesday, instransigent strikers attacked students attending one of the capital's preparatory schools. One student was killed and over 30 injured in the resulting melee. The extremists failed to intimidate the other students and police protection has been requested for those who have returned to classes.
- 4. During the past two weeks the government has threatened that it would close the universities if the situation did not soon return to normal. There would be widespread criticism for such a move now since the situation appears to be improving.
- 5. It is possible that further student violence will occur. It is unlikely, however, that it would be well organized or widespread. The majority of students are tired of the strike and want to return to classes as soon as possible.

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APPROVED FOR RELEASE DATE: DEC 1999 6. The Mexican army and the security forces have been firmly in control of the situation since it began, and they remain loyal to the President.

TITLE:	Mexican Student Strike Apparently Waning
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MEXICAN STUDENT STRIKE APPARENTLY WANING

The four-month-old student strike in Mexico appears nearly over despite hard-line attempts to continue the dispute with the government.

The National Student Strike Council (CNH) voted on 20 November to end the strike, and formal decisions by the individual school assemblies may soon follow. Rising student attendance, especially at the National University, preceded the deci-sion and reflected student concern over the impending loss of a year's credit. The knowledge that the government was prepared to take drastic action, including closing all universities, may also have played a part in the decision. Recent presidential actions suggest the government was lining up support for a decisive stand.

Some of the more radical student groups, especially at the National Polytechnic Institute (IPN), the nation's second

largest school, disagree with what appears to be the general sentiment for a return. groups," armed with machetes. broke up an attempted meeting at the National University law school on 2 December. Other extremist efforts to continue the strike included an attack on 27 November on students who had returned to class. The attack left one dead and two seriously wounded. This week, students clashed with Mexico City bus drivers over a slight fare rise. Such incidents have provoked general criticism, however, in contrast to earlier public sympathy for the students' cause, and any further violence is unlikely to be coordinated or widespread.

Radicals may desert the CNH--some groups at IPN are planning to form a National Fight Council--but barring a major incident that could rekindle tempers on both sides, most students will probably report back by next week. (CDERET NO PORDION DISSIM)



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DIRECTORATE OF INTELLIGENCE

WEEKLY SUMMARY Special Report

Challenges to Mexico's Single-Party Rule

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17 January 1969 No. 0353/69A

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CHALLENGES TO MEXICO'S SINGLE-PARTY RULE

The Diaz Ordaz administration's modest efforts to liberalize the government have intensified the popular cry for reform, and protest against the authoritarian style of Mexico's one-party system is surfacing with increasing frequency on a local level. These efforts have also stiffened the resistance of powerful old-guard political bosses who fear a diminution of their control. Last summer's student demonstrations provided the largest open manifestation of discontent with the government in three decades.

It is apparent that Mexico's unique political system, which was so effective in governing a backward society and which brought prosperity and education to many, is now being outgrown by an increasingly sophisticated, articulate public. Diaz Ordaz may have loosened the fiber of resistance to change, so that with good leadership the system can remain flexible enough to mature along with the population. Mexico's political course will probably be one of experimentation over the next few years, and the direction it finally takes could be chosen by Diaz Ordaz' successor.

With his six-year term expiring in December 1970, Diaz Ordaz will be under pressure from all sides seeking to influence him in selecting the presidential candidate for the July 1970 election, and this pre-election year promises to be an especially tough one for Mexico's ruling party.

Background

Mexico's political and economic progress in the midst of the political turmoil and fiscal irresponsibility associated with the Latin American region is generally credited to its unique political institution of "continuing revolution"--the Institutional Revolutionary Party (PRI). Embodying the myths, legends, and ideals of the 1910 Revolution, the PRI over the past 40 years has brought Mexico out of backwardness into its current status as a rapidly developing nation. Recently, though, the PRI has been strained by an increasingly sophisticated



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17 Jan 69 SPECIAL REPORT

The Newest Challenge

Beginning in July 1968, Mexican university and secondary school students projected themselves as a new force on the political scene. The fact that this hitherto bothersome but relatively inconsequential and disorganized element could suddenly shake a highly structured, generally sophisticated administration is attributable almost entirely to the timing of events. Minor disgruntlement over police interference in a school fight ballooned into a full-scale student movement against the government--less on the merits of the grievances expressed than because the XIX Olympiad in Mexico City provided a unique forum for protest.

There is, nevertheless, an authentic context for some of the protests of the students, whose efforts represent still another in a series of warning

signals that Mexico's vaunted progress and genius for stability have seen better times. The effect of the student movement at the very least is to have intensified the self-examination already in process among the nation's political leaders.

The Protest

Tough action by riot police and regular police on 22 and 23 July to put down clashes between students from rival prep schools triggered student charges of police brutality. On 26 July, an authorized demonstration organized by a government-influenced student federation was joined by a smaller group of Communists celebrating the Cuban anniversary. After the radical students turned the march into a violent looting spree, clashes with police intensified student charges of brutality. Further rallies generated violence beyond the control of riot police, and paratroopers were called in to quell the disturbances during which several were killed and hundreds were wounded.

Student demands grew beyond those for disbanding the riot police and now include indemnification for the injured students and the families of the dead, withdrawal of the army from occupied schools, and release of student prisoners. The several large, disciplined marches that were held showed unprecedented student determination on a fixed issue, but also provided a continuing threat of violence. Despite attempts by

activist minorities of all shades to take over or influence the student movement, or to reorient it against the US or Communists, or toward other Mexican problems, the struggle remained confined to the original complaint plus those directly related to the developing events. Most of the numerous reports linking the movement to ideologically or politically motivated subversives have remained unsubstantiated. The protest steadily sharpened its focus on the Diaz Ordaz administration, with attacks on prominent cabinet and cabinetlevel officials and even scathing criticism of the President, who is traditionally inviolate in Mexico.

By October, the movement had achieved world-wide notoriety. The students had caused the worst civil disorders Mexico had experienced in over 20 years and jeopardized the Olympic Games scheduled to begin on 12 October. Far and away the worst, and for all practical purposes the final, incident came on 2 October when a large rally in the Plaza of Three Cultures in Tlatelolco district erupted into a wild gunfight that killed scores of persons and injured an estimated 1,000. This "Tlatelolco massacre," as it was quickly dubbed even by the Mexican press, effectively ended large demonstrations, and, although a student boycott of classes continued through 1968, student leaders were unable to organize further manifestations on the scale that had previously characterized the movement.

The Government Response

The official handling of the student strike was inept. The government, which had suffered unaccustomed bad press for plectoral fraud in paja carriorhia earlier in 1968 and also in 1967 for the imposition of an unpopular governor on the openly rebellious citizenry of Sonora, became the object of criticism around the world because of the presence of the international press, in Mexico for the Olympics. The Diaz Ordaz administration lost considerable face during the prolonged and sometimes violent strike. It was criticized both by those who thought the government should have taken hold of the situation early, even if by force, and by those who thought a conciliatory attitude was in order. While the smooth staging of the Olympic Games did much to redeem the prestige of the government and the nation, it could not erase the internal political damage.

There was apparently no expectation that the student protest would become a crisis. The government's preoccupation with readying for the Olympics had already led it to warn the Communist Party and probably other extremist groups that there would be absolute intolerance for any activity that might mar the games. The authorities evidently discounted the possibility of a problem not inspired by subversives. Official blindness to real dissent or to spontaneous protest is in a sense characteristic

in Mexico, where internal difficulties are commonly attributed
to "outside agitation." One of
the initial responses of the government to the student disturbances was to arrest Communist
party leaders. Throughout the
subsequent months of crisis, government officials laid the culpability variously at the doors of
Cuba, the USSR, Communist China,
and US security agencies.

These tactics did less to discredit the student movement than to discredit the government itself. Moreover, while force eventually did cause the collapse of the protest as a mass movement, and students have returned to classes, some of the legitimate causes espoused by the youths are now being given attention. New legislation has relaxed the machinery for releasing political prisoners, and hearings are being held with an eye to reforming article 145 of the criminal code by which political dissidents are held for the crime of "social dissolution." Almost all students have been released from jail. Educational reform is under study, and the head of the PRI has admitted publicly that the party has for a long time forgotten university youth.

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Title:	NATIONAL INTELLIGENCE ESTIMATE - THE PROSPECTS FOR MEXICO
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NATIONAL INTENDEDICENCE ESTIMATE:

The Prospects For Wexico

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THE PROSPECTS FOR MEXICO

CONCLUSIONS

Over the last three decades or so, Mexico has achieved a level of political stability and a pace of general economic progress unmatched in Latin America. This achievement has been facilitated by the availability of US private capital, technology, and markets. But it is largely due to the development of a one-party system that has been strong enough to carry out an essentially pragmatic and constructive program, while satisfying a broad spectrum of political and economic interests.

In recent years the system, whose leaders claim it represents the "continuing Mexican Revolution," has shown signs of losing its ability to adapt to the changing needs of the society. We judge, however, that it will not have great difficulty in dealing with growing problems and pressures over the next few years.

We are more concerned with the system's continued responsiveness to the increasingly complex problems which it will face over the longer run. Thus we consider that the attitudes and actions of the next administration (which will take office in December 1970), towards such critical issues as widespread poverty among the rural and urban masses, a veritable population explosion and the growing disillusionment of the younger generation, will be crucial for continued political stability and economic progress in the mid- and late 1970's. We believe there is a danger that the system will become less responsive and tend to rely more heavily on its repressive powers—a situation likely to promote instability.

In the event that the Mexican Government becomes hard pressed on domestic issues, there might be an increase in anti-US criticism and troublesome incidents in US-Mexican relations. However, unless the Mexican leaders become convinced that the US is abandoning or down-playing its special relationship with Mexico, we would expect no sharp deterioration in US-Mexican relations.

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DISCUSSION

I. THE "CONTINUING REVOLUTION"

1. During the first two decades of the so-called "continuing Revolution" that began in 1910, there was considerable bloodshed and revolutionary change in Mexico's institutions. Since then, however, more pragmatic and constructive courses of action have provided political stability and substantial, sustained economic progress unmatched in Latin America. We propose, in the following paragraphs, to examine the Mexican system, and the shorter and longer run problems confronting it, and to evaluate the system's ability to cope with these problems.

A. The One-Party System

- 2. Over the last 40 years, the Mexicans have developed and maintained an essentially one-party system which has pre-empted most of the left and center, and much of the right, in national, state, and local politics. To carry on the 1910 Revolution and to reduce the influence of the country's military leaders who had traditionally dominated national politics, Mexican presidents have developed an official national party based on major sectors of Mexican society such as the peasant, labor and professional organizations. This party, now known as the Institutional Revolutionary Party (PRI), has functioned so effectively and civilian authority has been so firmly established that there has been no serious military revolt for over a third of a century and every president since 1946 has been a civilian.
- 3. The PRI has dominated the political scene so completely that it has never been defeated in a presidential contest, and seldom in an important local election. When they have considered it necessary, the PRI leaders have taken whatever measures were required to overwhelm the opposition in state and local elections which might have been more closely contested. (The PRI's use of intimidation and manipulation of ballots in the recent gubernatorial election in Yucatán is a case in point.)
- 4. Among the opposition parties only the small, moderately conservative National Action Party (PAN) has consistently opposed the PRI in presidential elections, has been able to defeat a PRI candidate for the Chamber of Deputies, and offers the PRI a real contest in some state and local elections. While the PAN has caused the PRI some embarrassment in such elections, it has been able to attract less than 15 percent of the votes cast in national elections. Its programs reflect its position as the "out" party but does not call for radical changes in existing government policies. The other two legally inscribed political

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parties exist on official sufferance and are subsidized in order to maintain a nominal opposition.1

- 5. Attempts to start more vigorous opposition movements have not prospered because most politically aware Mexicans realize that there is little future for anyone outside of the PRI. Although some criticism is permitted, the press, radio, and television are kept compliant, if not subservient, by government controls over supplies and licenses and over advertising by state entities. Finally, since the executive branch dominates the judiciary, it is able to make extensive use of police powers, including a penal code under which individuals are subject to long prison terms for a variety of vaguely defined offenses against society. These powers have been particularly useful in dealing with members of the various small splinter groups of leftist extremists who are able to exploit incidents—such as student rioting—but have only a limited capability to initiate them.
- In large part the PRI has been successful because of its ability to convince major groups, including important new ones such as commercial farmers and industrialists, that it is serving their interests. It also has been able to resolve most of its internal conflicts within the party. Although its spokesmen maintain that the party is the main vehicle of the "continuing Mexican Revolution," and that its ideology is of the revolutionary left, the PRI's course has been increasingly marked by pragmatism rather than revolutionary fervor. In recent decades the pressure groups that have been most influential in determining Mexico's policies have been the professional, industrial, trade and commercial agricultural interests which make up the PRI's "popular" sector, rather than its numerically much larger labor and peasant sectors. In part, at least, this explains why the "continuing Revolution"-which destroyed the political and economic power of the pre-1910 landed oligarchy-has provided more benefits for a new urban-based wealthy class and a greatly expanded middle class than for the impoverished rural and urban masses who constitute about a third of the total population.
- 7. Since 1958 the presidents of Mexico, and most of their lieutenants in the party and in their administrations, have come from the generation that reached maturity after the 1910-1930 period of revolutionary and counter-revolutionary violence. They have been largely drawn from the civil professions, particularly the law; in the main, they are representative of the middle and upper-middle classes. They tend to lack the color and charisma of the Revolutionary generation but also tend to be more highly skilled in the art of governing than were many of their predecessors. In a sense the party leaders constitute a professional

¹ The relatively small, Marxist, Popular Socialist Party (PPS) and the even smaller Authentic Party of the Mexican Revolution (PARM) supported the PRI presidential candidate in 1964 and will do so again in 1970. The PPS and the PARM probably do not have anywhere near the 70,000 members required to be legally inscribed. There is also a very small Mexican Communist Party (PCM), with some 3,300 members and very little influence in Mexican politics.





political elite, which rules for a broad range of interests rather than for the benefit of a small group as in many other Latin American countries.

B. The President

- 8. In the Mexican system the president plays the paramount role during his six-year term, by setting the direction for national policy and by manipulating the PRI and the government to carry out his programs. But the tradition of no re-election is firmly established and for several decades there has been no problem in carrying out a peaceful transmission of power. The president has a major role in the selection of his successor. Since 1934, however, no president has been able to extend his administration by controlling the actions of his successor. Indeed, the change of administrations provides the occasion for a review of national priorities and for a substantial turnover in the top-level leadership of both the PRI and the national government.
- 9. Barring death or serious illness, Luis Echeverria Alvarez, the candidate of the PRI, will be the next President of Mexico for a six-year term beginning in December 1970. A vigorous and highly intelligent 47 year-old bureaucrat, Echeverria has never held elective office. He has served much of his public career under President Gustavo Díaz Ordaz, first as the latter's assistant when he was Secretary of Government (1958-1963), and then as Secretary of Government when Díaz Ordaz resigned to run as PRI candidate for the presidency in 1964. Thus, for over a decade, Echeverría has been part of a team which believes that the Mexican system requires firm control from the top and which has little tolerance for dissent.
- 10. As a result of Echeverria's extensive experience with Mexico's security system and problems, he is fully aware of the nature and extent of criticism of the PRI and the current administration. The 1969-1970 campaign, during which he will undertake the traditional extensive visits throughout the country, provides him an opportunity to establish personal ties with state and local officials and to become better acquainted with their problems. It also serves to let large numbers of Mexicans, including those in remote areas, know who will be in charge of the nation for the next six years; and, however limited it may be, to have some direct or indirect contact with him. Once inaugurated as President (December 1970), Echeverria will set about putting his own stamp both on the government and on the PRI, the core of Mexico's one-party system.

C. Economic Progress

11. Mexico's economic progress since the mid-1930's has been exceptional. A key ingredient has been the government's ability to combine increased emphasis on the public sector with encouragement for private investment, and to attract US private investment while encouraging domestic capital formation and investment. Enlightened economic policies, access to US financial and technological resources and markets, and, particularly in the last decade, earnings from a rapidly increasing tourist trade, have also made important contributions.



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Although foreign investment is not permitted in certain fields, such as petroleum, communications and land ownership in border areas, and must operate under definite limitations in others, it has been attracted to Mexico by the assurance of a stable political and financial situation and of continuity in official policy. Foreign investors have prospered, while at the same time they have made substantial contributions to the modernization and expansion of the industrial and mining sectors of the economy. Mexico, however, is now at the stage where economic expansion is being largely financed from domestic sources.

12. Since 1950 the Mexican economy has expanded at an average rate of some 6.5 percent annually as compared to about 5 percent for Latin America as a whole. Moreover, the Mexican rate rose from 6 percent in the 1950's to 7 percent in the 1960's, while the Latin American rate declined slightly. (See Figure 1, "Economic Growth in Mexico and Latin America, 1950-1968.")

13. Manufacturing is now the largest sector of the economy and the one growing most rapidly. It accounts for about a third of gross national product. Although expansion has focussed largely on import substitution, Mexico also has substantially increased the share of manufactures in exports, from 7 percent in 1950 to about 29 percent in 1969. Manufacturing is now fairly well

Figure 1. Economic Growth in Mexico and Latin America, 1950-68

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diversified and includes industries producing steel, various chemicals, motor vehicles, durable consumer goods, and some types of capital equipment. The prices of manufactures are generally low by Latin American standards although many are high by world standards. While imports, particularly of capital goods needed in the industrialization program, have been increasing at a more rapid rate than have exports, Mexico has been able to attract enough foreign capital to cover its current account deficit.

14. The mining industries have increased their output by some 40 percent since 1950, furnishing increased supplies of iron and copper for the manufacturing sector, and substantially raising their exports of zinc, lead, mercury, silver and sulphur. The petroleum industry, which was nationalized in 1938,2 has increased output by 240 percent since 1950, meeting rapidly growing domestic needs and maintaining a small net surplus for export. Moreover, it has earned profits for the state despite price controls imposed to benefit domestic consumers.

15. The agricultural sector of the economy, and particularly that portion producing for export, has also made substantial progress. Since 1950 agricultural output has been growing at an average of 4.5 percent annually, thereby keeping ahead of the rapid annual increase in population. Government investments in infrastructure, particularly irrigation projects and transportation facilities, and its subsidies for corn, wheat and other crops, have been instrumental in enabling Mexico, which was a net importer of farm products during World War II, to become a net exporter.

D. The Population Problem and the Persistence of Poverty

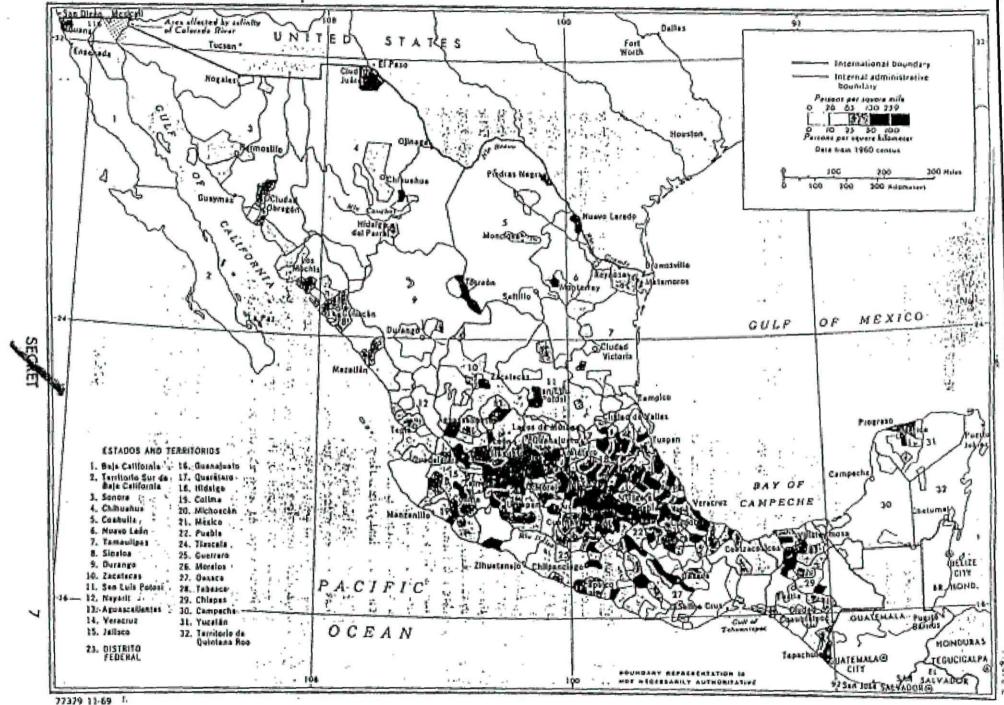
16. While Mexico has made remarkable progress in many fields, relatively few of the benefits have trickled down to the hard core of unskilled urban and rural masses, who constitute about a third of the total population. A major factor in the persistence of poverty has been the rapid spurt in population from some 28 million in 1950 to an estimated 50 million by 1970. The annual rate of increase in population has now reached 3.5 percent, one of the highest in the world. It is likely to go even higher—perhaps close to 4 percent—before the present very limited family planning programs have any noticeable effect.

17. The impact of this upsurge in population is causing serious problems in rural and urban areas. While Mexico has sizeable amounts of arable land (some

Although US business and official relationships were badly strained at the time of nationalization, reasonable compensation was paid by the Mexican Covernment and the latter's policy of Mexicanization in this and other key areas of the economy soon came to be accepted by foreign investors.

This increase is the result of a continued high birth rate combined with a reduction in the mortality rate from 17.9 per thousand in 1949, to 9.2 in 1967, and a decline in the rate of infant mortality from 106.4 per thousand to 60.7 during the same period. The heavy concentration of population within a radius of 200 miles of Mexico City is illustrated by Figure 2 "Mexico: Distribution of Population."

MEXICO: Distribution of Population





13 percent of its total land area), much of it has basically poor soil that requires irrigation and fertilizers to support more than a bare subsistence type of agriculture. The absolute number of landless peasants has grown, because of the limited amount of land available for distribution and the increase in the rural population. Mechanization of the commercial farms has also swelled the numbers of unemployed peasants, many of whom have migrated to the cities. As a result Mexico City now has an estimated seven million inhabitants in its metropolitan area, and two other cities (Monterrey and Cuadalajara) have passed the million mark. These and other urban areas have large numbers of unemployed and underemployed existing in submarginal conditions.

18. Widespread rural discontent was one of the principal motivating forces of the 1910 Revolution and agrarian reform has been pursued with varying degrees of intensity by most Mexican governments since then. The massive distribution of land has been a political success because it aligned recipients with the government but it has failed to secure lasting economic benefits for the great mass of Mexican peasants. Most of the 2.3 million or so farmers on the ejidos have no title to the lands they work and are at the mercy of the ejido authorities. There are also about a million heads of families whose private land holdings average about three acres and most of them eke out a bare subsistence with scant prospect of improving their status.

19. Some two million landless peasants are even worse off. The bracero program, which had enabled thousands of them to earn enough in the US to support their families, was phased out by the US between 1964-1966. Since there is little arable land left to distribute, their chances of making even a meagre living through farming are minimal. Unlike the ejidatarios and the small landowners, the landless peasants have very little to lose through disruption of the status quo and some of them have become involved in attempts to seize land and in attacks on local authorities. In the main, Mexico's landless peasants are now little better off economically than they were in 1910.

20. While it has acted to ameliorate certain agrarian problems, the government has not been willing to undertake a sizeable reallocation of its resources from the support of industrialization to improving the lot of the rural and urban poor. Sizeable unemployment has kept incomes down, particularly for the less skilled, whether they remain in the countryside or flock to the slums in and around Mexico City. As a result, the lower-paid salaried and wage earning personnel were relatively worse off economically in recent years than their counterparts

^{*}The ejido was a traditional form of land tenure to which the Mexican Government returned in breaking up many of the large haciendas. An ejidotanio has the use of a specified amount of land but does not own it and cannot rent, sell or mortgage it. Allocation of the small plots of land is determined by the ejido authorities, who are generally controlled by the local and regional leaders of the PRI.



had been in 1950.5 Although price controls on basic foods help those regularly employed, large numbers of unemployed and part-time workers live on a hand-to-mouth basis. Successive administrations have, however, been able to avoid any serious political repercussions from this situation by keeping a close control over the leadership of the National Confederation of Campesinos (CNC) and the Confederation of Mexican Workers (CTM).

E. US-Mexican Relations

21. The main guidelines for Mexico's foreign policy, which stress the principles of non-intervention, juridical equality of nations large and small, and the peaceful settlement of disputes, reflect the country's proximity to and preoccupation with its relations with the US. Widely held and deep-rooted feelings of mistrust and fear of the Colossus of the North, though diminished, still loom large in the Mexican view of the world. Those feelings had their origins in the loss of about half of its territory (the area comprising Nevada, Utah, Texas, California, New Mexico, and Arizona) to the US well over a century ago. They were revived by various incidents that occurred during the first few decades of the Revolution, especially by the two US military interventions on Mexican soil (1914 and 1916-1917).

22. Over the last quarter century or so, there has been a marked improvement in US-Mexican relations. In the early 1940's the settlement of the claims arising from the nationalization of foreign oil companies removed a major source of discord. Mexico cooperated closely with the US in hemispheric defense operations during World War II and a Mexican Air Force squadron served with US forces in the Philippines. Over the last decade mutual efforts to improve relations have brought the solution of the Chamizal border dispute, which began in the last century, and have facilitated close cooperation on irrigation and hydroelectric power projects.

23. A major factor in the improvement in US-Mexican relations has been the decision by the Mexican political leaders that a stable, cooperative relationship with the US is in their country's best interests. The general acceptance by the US of Mexico as an equal, in dealing with problems and matters of common interest, has been instrumental in creating an atmosphere of mutual trust and cooperation, which has been established and significantly expanded during the present administration of Gustavo Díaz Ordaz (1964-1970). At the same time, however, every administration since the revolution has stressed its "independent" foreign policy; the refusal to join the other Latin American nations in breaking off relations with Cuba is, in part, an example of Mexico's insistence that its policies be determined only by Mexicans.

^{*}In 1950 the lowest 30 percent of individual wage earners received 13 percent of total wages and salaries while the highest 10 percent received 31 percent of such payments. By 1964-1965 (the last period for which such information is available), the lowest 30 percent received only 6 percent of wages while the upper 10 percent received 36 percent. If other sources of income were included, the picture would be even grimmer.



24. Close cooperation between US and Mexican officials on a wide range of problems in recent years have led the latter to expect to be consulted in advance before the US takes action affecting Mexico. Since the Mexican officials do not feel that they were adequately alerted before the US undertook "Operation Intercept" in October 1969, the measures taken to stop the smuggling of narcotics into the US have caused considerable resentment in official as well as private circles. The Mexican reaction underlines the sensitivity of their political leaders to the way in which US-Mexican relations are conducted and their continual need for reassurance that the special US-Mexican relationship is being maintained. Once that reassurance was given, Mexican officials stepped up search and destroy missions against the production and distribution of narcotics on Mexican territory that have contributed to progress on "Operation Cooperation" (ex-Operation Intercept).

II. INTERNAL PROBLEMS FACING MEXICO IN THE 1970's

25. Mexico's short-run economic prospects are bolstered by its relatively favorable fiscal situation: it is one of the few Latin American countries not confronted by urgent problems in this field. The Diaz Ordaz administration has maintained the government's high-credit rating abroad, has attracted enough foreign capital to cover current account deficits in its balance of payments and to increase reserves, and has kept domestic prices fairly stable. We judge that the economy will continue to expand during the next two or three years and that no serious economic disruption appears likely in the early 1970's.

26. Over the longer run, however, Mexican governments will be confronted by basic socio-economic problems which, if not resolved or substantially ameliorated, could cause serious disruption in the society. Unrest generated by inequalities in the distribution of the national income, corruption, and disaffection with the system generally has been increasing in recent years. The poverty of rural Mexicans will be particularly difficult to cope with as long as official policy concentrates scarce resources on industrialization and commercial agriculture. The upsurge in population, which exacerbates other problems, is a particularly delicate one, given the Mexican pride in large families and tendency to identify the begetting of offspring with manliness. In addition, the growing number of the population that is below the age of 14, now 46 percent and increasing annually, and the multiple problems created by the rapidly rising urban population, necessitates diversion of a steadily larger share of the national budget to schools, housing, transportation, waste disposal, water supply, and public health.

Average annual per capita income is only \$150 in the countryside as compared to \$700 in urban areas.



^{*}Wholesale prices have risen an average of only 2 percent annually since 1960. The consumer price index—which includes certain goods under price control—showed a rise of 3 percent for the first 9 months of 1969 over the corresponding period in 1968. External borrowing, however, has raised the total of Mexico's medium- and long-term debt, which was US\$850 million in 1960, to US\$2.5 billion in 1966, and to an estimated US\$3.3 billion at present.



 President Díaz Ordaz has been aware of these problems and has attempted to cope with them. His efforts have been concentrated on expanding the industrial sector-to provide employment opportunities for the urban poor and for landless peasants and to increase Mexican exports—and on aiding commercial agriculture. The industrial sector has performed well but it operates under handicaps, such as the limited domestic market, the competition from well-established industrial powers, and the measures those powers have taken to protect their domestic industries. These constraints will continue and (in some respects) become more important in the 1970's, probably making both import substitution and expanded exports of manufactures more difficult. The recent partial untying of US aid to Latin America should benefit Mexican industry, however, and tariff preferences for the manufactured goods of the lesser developed nations would help still more. On balance, it is doubtful whether the growth rates for manufactures of the past two decades can be maintained. Even if they are, the urban economy is likely to have difficulties in absorbing the increasing numbers of unemployed.

28. In recent years, the government and the PRI have also faced increasing difficulty in co-opting student movements. Some student groups, and particularly the organized university students, have been alienated by the shortcomings of the educational system, which lacks classroom and laboratory facilities and full-time teachers, as well as by the repressive features of the political system. In mid-1968 repeated student clashes with police and student rioting culminated in bloody encounters between students and army troops on the eve of the opening of the Olympic Games in Mexico City. The students were not able to secure the support of labor or campesino groups and, since being severely mauled by the army, they have undertaken only limited demonstrations against the regime.

29. However successful the PRI has been in controlling such protests and demonstrations, it has done little in a positive way to close the generation gap between its leaders and Mexicans between 15 and 30 years of age—some one-third of the total population. Among those younger Mexicans critical of the PRI, there is a growing conviction that the leaders of the system are satisfied with maintaining little more than a façade of representative political democracy. The critics generally acknowledge the past achievements of the system, but insist that the party's leaders do not understand and are not concerned with the problems and aspirations of the younger generation.

30. The students are not likely to pose any serious immediate threat to either President Gustavo Diaz Ordaz or his chosen successor, Luis Echeverria. The student activists who led the antigovernment disturbances in 1968 and other critics of the present regime may try to disrupt Echeverria's campaign tour. Although there is the possibility that Echeverria may be seriously embarrassed and perhaps even injured by extremist demonstrations, his entourage has had extensive experience in handling demonstrators and in protecting the President

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and numerous foreign visitors. At the same time, the political opposition knows the limits within which it may operate and the consequences for exceeding them.

31. Furthermore, the present administration recently has secured a constitutional amendment lowering the minimum age for voters to 18 years and it may become effective before the July 1970 election. This should serve to ameliorate, temporarily at least, the discontent of Mexican youth by giving an estimated 2.7 million young people a chance to participate in the political process legally and peacefully. The voting preferences of these new voters would also provide an indication of the extent of alienation of youth from the PRI. If the official party does not do a more effective job of appealing to and satisfying the interests of younger voters than it has in recent years, the main beneficiary almost certainly will be the PAN. This would strengthen the PAN's chances in local elections, particularly in urban areas where it now receives considerable middle class support. Eventually, continued disaffection for the PRI among such voters would enable the PAN to raise its opposition to the PRI to the point where the rigging of the results would become more and more difficult and obvious.

32. In recent years there also have been indications that labor is becoming restless, particularly over its share of the national income and subordinate role in the PRI. An extensive revision of the labor code (which dates from the early 1930's) is now underway, however, and should assuage labor discontent, at least for the short run, and help to ensure a smooth transition of power from Diaz Ordaz to Echeverria. There are proposals for requiring employers to provide housing facilities, which, if adopted and implemented, could improve the living conditions of many workers. Minimum wages have been raised recently but we doubt that this will result in a substantial improvement in the standard of living of the Mexican masses.

33. Similar discontent within the peasant sector of the PRI is not an immediate danger but meeting its needs poses more difficult problems, even in the early 1970's. There is relatively little arable land left to distribute, without appropriating the commercial farms which provide much of the production for domestic consumption and export.

34. Internal security is the principal function of the Mexican Armed Forces and they have proven capable of handling unrest decisively and expeditiously in the past.* The army is often called upon to restore order throughout Mexico, except in Mexico City where the formidable police forces usually are able to maintain order. The student riots of 1968, however, were of such magnitude that the army was called in to bring them under control. The security forces need more modern communications and transportation equipment but are prob-

^{*}Total personnel of the Mexican Armed Forces is some 79,000 men distributed as follows: Army, 64,000; Navy, 10,400; and Air Force, 4,600. There is also a 70,000 man rural defense corps which is under the command of various military zones but has limited training and equipment for dealing with serious disturbances.



ably capable of coping with much greater opposition than they have been confronted with up to now. They would, however, be heavily taxed by widespread violence in the countryside. We judge that their capabilities will remain substantially unchanged over the next few years.

35. Over the longer run, we judge that the next administration, and its successor, will have increasing difficulty in maintaining the present highly centralized and controlled political system. The very success of that system, in creating a relatively open society, has produced a much more sophisticated electorate. This present generation no longer accepts the old revolutionary rhetoric as unquestioningly as did previous generations, and it has indicated the need for changes in the PRI leadership and style. President Diaz Ordaz, in his first year in office, permitted one of the more liberal PRI leaders, Carlos Madrazo, to experiment with "opening up" the system to give local party members an effective role in the selection of party candidates and leaders. When powerful state leaders saw their dominance threatened, they opposed the reforms Madrazo had tried to introduce, as president of the PRI, and he was soon sacrificed. Although Echeverria has shown few signs of being innovative, he is an intelligent and pragmatic individual. If he does try to modernize the system, his chances for success will depend to a considerable degree upon his selection of a party president less heavy-handed and more subtle than the ebullient Madrazo was (Madrazo died in mid-1969), and upon giving his agent the kind of firm backing that Madrazo did not get from Diaz Ordaz.

36. On the basis of his previous record we judge that Echeverria is not likely to make any radical changes from the policies of the Diaz Ordaz administration. We think that he probably will be somewhat more concerned with the problems of students and youth generally, than the incumbent regime, but equally as ready to apply force to keep dissent within "tolerable" limits. Echeverria has already declared that the poverty of rural Mexicans is the nation's primary problem and he will undoubtedly do what he can to alleviate it. We doubt, however, that he can or will undertake the massive reallocation of resources needed to cope with it, because he would consider that this would be economically infeasible and create serious political difficulties for the PRI. Such a sharp policy shift would, indeed, slow spending on both productive enterprises and social facilities in the cities, and generate resentment among urban workers and businessmen. Furthermore, it is not at all clear that resources transferred from the modern, urban sector to the rural sector would substantially increase employment opportunities and incomes for the potential migrants to the cities.

37. If Echeverria decides to maintain the system largely unchanged, his regime will probably have to rely increasingly on force and intimidation to maintain public order in the urban areas, where the students are concentrated, as well as in the rural areas. Such a course would also mean an increasing reliance upon the armed forces, whose younger leaders are not as closely aligned with the PRI and as dependent upon it for promotion as were the present older generation of military commanders. In the event of prolonged or recurrent public





unrest we think the Mexican military leaders would attempt to use the regime's increased dependence on them as a lever for obtaining a larger role in national politics. We do not expect unrest on this scale to occur in Mexico over the short run, and if it does Echeverria will have time to make adjustments in the system. The chances of widespread public unrest over the longer run depend heavily upon the PRI's ability and willingness to cope with the needs of the changing Mexican society, while making a minimal use of its repressive powers.

38. An additional complicating factor, over the longer run, may occur as a result of strains in Church-State relations. Over the last four decades or so an effective modus vivendi has been worked out by the Church and government leaders to replace the bitter conflicts that marked the first 20 years of the Revolution. Under Díaz Ordaz, a practicing Roman Catholic, Chuch-State relations have measurably improved despite the increased involvement of some of the Catholic clergy and laity on behalf of Mexico's distressed masses. The more conservative members of the religious hierarchy have tried to restrain this progressive or "Committed" sector of the Mexican Church because they do not want to risk endangering the regime's toleration of their activities in education and other fields, which are forbidden under the 1917 Constitution.

39. Under Echeverría, however, who is not a practicing Roman Catholic and also has a reputation of being anticlerical, the "Committed Church" movement is likely to create strains that will not be so readily resolved. Over the last year, even the Díaz Ordaz administration has been showing signs of uneasiness over the "Committed Church's" activities in the social welfare field. This is a particularly sensitive area because the official party claims that it is the custodian of the welfare of the masses. Thus the PRI is likely to oppose any activity by the Church that might benefit its principal rival, the PAN, which is generally viewed as being aligned with the Catholic Church.

40. Mexico has been extremely fortunate that its political system has not been subjected to the test of the death or serious incapacitation of the president in mid-term. There is no vice-president, or other constitutionally designated successor, and Mexican presidents traditionally have been chary of establishing an heir-apparent until the last year of their term in office.* For several decades the problems that traditionally had accompanied the transferal of power has been minimized by the careful screening of candidates and by lengthy preparations for the actual transferal of power. If Echeverria should die or become seriously incapacitated, the system might come under severe strain during the selection of a successor. At the very least, the conflicting interests of the party sectors, and of the groups represented in the popular sector, would be difficult to accommodate without the customary strong guiding hand of the Mexican president.

^{*}If the death, absence or disability of the president occurs in the last four years of his term, Congress chooses a replacement to complete that term. If a replacement is needed in the first two years, Congress selects a provisional president and new presidential elections are held.





41. In summary, we do not anticipate serious difficulties for the next administration over the short run. It is difficult to estimate either whether the problems facing the Mexican Government will develop to serious proportions or how they will be handled if they do. By the mid-1970's, however, the system probably will be sorely tested by the gravity and complexity of the problems confronting it. Even under optimum conditions and with the most judicious of policies, progress on Mexico's basic economic and social problems will be limited. Much will depend on whether the system retains the ability that has distinguished it over the last several decades to adjust to changing situations and to continue to convince the major sectors of Mexican society that it is representing their interests. The attitude and performance of the next administration is crucial for continued economic growth and political stability under the Mexican system. In the light of developments over the last year or so we see signs that the system is losing its ability to adapt to the changing needs of the society and there is a danger that it will become more repressive over the longer run.

III. THE OUTLOOK FOR US-MEXICAN RELATIONS

42. The future pattern of US-Mexican relations will depend heavily upon the style with which US policies regarding Mexico are carried out, as well as the content of those policies. There is a basic residue of anti-US feeling in Mexico, which is kept alive by extremists on the right and left, but Mexicans in general seemed to have moved beyond the radical nationalism of the early stages of the Revolution. Díaz Ordaz and his predecessor, Adolfo López Mateos (1958-1964), in particular, have placed a high priority on maintaining close and friendly relations with the US. We believe that, initially at least, Echeverría will follow a similar pattern. In view of his more strongly nationalist outlook, however, Echeverría may be more sensitive to the way in which US policy is conducted, and to any alleged intrusions on Mexican sovereignty.

43. The next administration's attitudes and policies towards the US are also likely to be significantly influenced by Echeverría's choice to head the Secretariat of Foreign Relations. There is a good chance that he will follow the example of Díaz Ordaz in concentrating his attention on domestic affairs and giving considerable responsibility to his Secretary of Foreign Relations. In that case the attitude of the Secretary would be important for continued close cooperation with US officials. The present Secretary of Foreign Relations, Antonio Carrillo Flores, is convinced of the value of avoiding open clashes with the US and has worked assiduously to avoid them. Thus we would regard the appointment of a similarly oriented individual as Secretary of Foreign Relations, as a signal that Echeverría is continuing his predecessor's high priority on negotiating solutions of problems with the US with a minimum of publicity.

44. There are a few basic problems which have persisted despite the best of intentions on the part of both US and Mexican negotiators. These include the salinity content of the Colorado River_and US import restrictions on a variety of products which Mexico produces. The top-level Mexican officials are aware





of the restrictions imposed on US negotiators by the powers of Congress in economic matters and foreign relations. Yet it is difficult for lower level officials and the Mexican public to understand these restrictions. Thus a minimum of adverse publicity is essential to continuing the present pattern of joint US-Mexican efforts to work out mutually satisfactory solutions to these and other difficult problems which may arise. The Mexican policy of maintaining relations with Castro's Cuba, for example, has caused relatively little strain in US-Mexican relations largely as a result of the way in which it has been handled by US officials and accepted by the US public generally.

45. Finally, US-Mexican relations are likely to be affected, over the longer run in particular, by the next administration's ability to cope with its basic domestic problems. We think that Echeverria will continue, and perhaps even extend, the present administration's recent emphasis on increasing the Mexicanowned share of foreign enterprises in Mexico, and is likely to react strongly against foreign criticism or action directed against that policy. In the event that his administration becomes hard pressed on domestic issues, Echeverria might allow anti-US elements to operate more freely to divert attention from his domestic problems. While we do not anticipate any sharp deterioration in relations, there may be an increase in annoying problems and in Mexican sensitivity to any dimunition of its special relationship with the US.



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CENTRAL INTELLIGENCE AGENCY

13 August 1970

SUBJECT: SMIE 81-1-70: SECURITY CONDITIONS IN MEXICO

THE PROBLEM

To estimate the likelihood of an incident that would embarrass or endanger President and Mrs. Nixon during their visit to Puerto Vallarta, Mexico, on 20-21 August 1970.

CONCLUSION

Given the relatively stable political conditions in Mexico and the generally friendly attitude of the Mexican people toward the US, the chance of an incident which would embarrass or endanger the President and Mrs. Nixon appears small. The Mexican







Government and its efficient internal security forces have cooperated well with US officials in making security arrangements for numerous US presidential visits in the past and should have little difficulty in keeping anti-US elements away from the relatively remote resort area of Puerto Vallarta.

DISCUSSION

- 1. The political situation in Mexico is stable. To no one's surprise, the generally peaceful Federal elections in July confirmed the continuity and effective monopoly of power held by the Institutional Revolutionary Party. After an extensive nationwide campaign which enhanced his political stature, President-elect Luis Echeverria is not likely to encounter any serious difficulties in taking over in December. Meanwhile, President Diaz Ordaz can be expected to keep a firm hand on the government and to avoid actions which might upset the relative political calm or complicate unnecessarily the job of his successor.
- Student unrest, aggravated by the bloody confrontation between students and the government in October 1968, continues to



simmer. But firm government controls combined with steps to ameliorate some of the causes of the trouble have inhibited disorders during the past year. During the President's visit Mexican students will be on vacation, reducing further the chances of a demonstration in Mexico City or other student centers. Anti-US student leaders would find it particularly difficult to organize any action in or near the remote and well-secured Puerto Vallarta area.

- 3. Anti-US sentiment remains strong among political and intellectual groups on the left and far left, including the small Communist Party, the larger Popular Socialist Party, and various extremist groups. But the limits of political dissent are well recognized in Mexico, and none of these groups is likely to invite the wrath of the government by openly organizing anti-US demonstrations during the visit of President and Mrs. Nixon. Government surveillance of organizations likely to cause trouble has already been stepped up, and swift preventive action by the security forces is likely to inhibit any organized effort to infiltrate disruptive elements into the Puerto Vallarta area.
- To cap his record of close and mutually beneficial cooperation with the US during his term of office, Diaz Ordaz





will wish to arrange a warm and cordial reception for the Presidential party in Puerto Vallarta. As compared to Mexico City, security arrangements in the resort area should present few problems. Land access to the area is limited to a single road from Guadalajara; the only other approaches are by sea and the airport just north of the town. The Mexican Government is experienced in handling security preparations for the visits of foreign dignitaries and will substantially strengthen its security forces in the Puerto Vallarta area during the Presidential visit. It will thus be able to ensure a high degree of personal safety for President and Mrs. Nixon.*

5. In recent months growing numbers of political exiles and malcontents -- including political prisoners released by other Latin American governments and some anti-establishment drop-outs from the

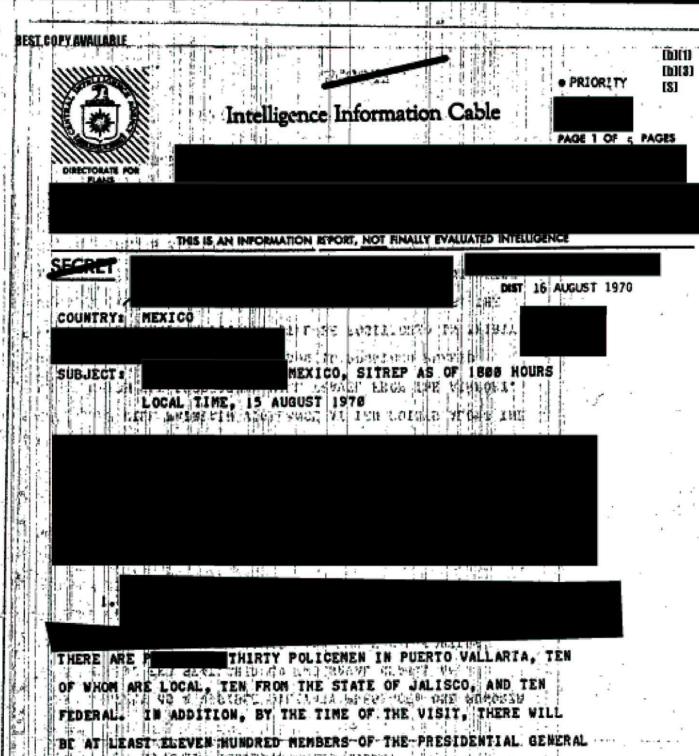
In addition to an honor guard of from 800 to 1,000 armed members of Diaz Ordaz' Presidential Guard at the airport to receive President and Mrs. Nixon, Mexican security forces for the occasion will include an air force fighter squadron at the airport, three naval units plus four fast boats in the bay, several hundred members of the Presidential Guard or army in civilian clothes along the route to be taken by President Nixon, and a uniformed army marksman every 50 yards along the tops of the cliffs above the town. During the visit all military forces in the area will be on full alert, a roadblock will control traffic on the road from Guadalajara, and the airport and the bay will be denied to all but official craft.



US -- have found haven in Mexico. One or more of these individuals might seek to embarrass the US Government or damage US-Mexican relations by some harassment or propaganda action, possibly in Puerto Vallarta itself. Such an action is unlikely to find any popular support or organized backing. Furthermore, the ability of the Mexican security forces to control the Puerto Vallarta area greatly reduces the chance that such elements would be able to carry out any significant action against the Presidential Party.

6. In sum, we believe the chances of an incident which would embarrass or endanger the President and Mrs. Nixon during their visit are small. At this time there are few issues likely to feed an anti-US protest. Organized demonstrations against the visit are thus unlikely; should they be attempted, the Mexican Government can be expected to move quickly to isolate and neutralize them. A danger which cannot be ruled out is that of an attempt at violence by a fanatic or psychopath. But Mexican security arrangements are likely to be so effective as to make this possibility rather remote.

Title:	PUERTO VALLARTA, MEXICO, SITREP AS OF 1800 HOURS LOCAL TIME, 15 AUGUST 1970
Abstract:	
Pages:	0004
Pub Date:	8/16/1970
Release Date:	3/29/2001
Keywords:	MEXICO NIXON ORDAZ
Case Number:	F-1997-01915
Copyright:	0
Release Decision:	RIPPUB
Classification:	U



STAFF, FOUR HUNDRED MEMBERS IN CIVILIAN CLOTKING WHO WILL ALL BE OFFICERS AND MIX WITH THE LOCAL POPULACE, AND SEVEN HUNDRED IN UNIFORM; SEVEN HUNDRED UNIFORMED ARMY TROOPS POSITIONED

ATE: MAR 2001

PAGES OF 5 PAGES

S.E. R.E

APPROPRIATELY AS A VISIBLE MILITARY PRESENCE; ONE HUNDRED NAVAL MEN AT SEA STATIONED ON TWO NAVAL CRAFT; AN UNSPECIFIED NUMBER OF MARINES; AND THREE RELICOPTERS.

113 (112) (113) (113)

THE UNIFORMED MEN WERE

ALREADY BEGINKING TO MOVE INTO THE AREA BY BUS AND TRUCK, AND THEY WERE DOING IT IN SUCH A WAY THAT THE AVERAGE CITIZEN WOULD BE IMPRESSED THAT THE ARMY WAS ON THE JOB. (SOURCE: U.S. EMBASSY OFFICIALS

OFFICIALS WILL MAINTAIN VIGILANCE AT TEN POINTS ALONG THE ROUTE WHICH THE PRESIDENTS WILL TRAVEL FROM THE AIRPORT.

IN ADDITION, ALONG THE ROUTE AND IN DOWNTOWN PUERTO

VALLARIA SECURITY OFFICIALS WILL BE POSITIONED IN THIRTY

CIVILIAN VEHICLES AND IN EIGHTY MILITARY VEHICLES; THE

LATIES IDENTIFIABLE AS SUCH. AT ANY PLANNED POINT WHERE

THE PRESIDENTS MAY STOP, THERE WILL BE FIFTY OR SIXTY

SECURITY MEN CIRCULATING AMONG THE CROWDS. MANY OF THESE

HAVE ALREADY INFILTRATED INTO PUERTO VALLARIA AND ARE UTILIZING

THE COVER OF SHIRING SHOES, SELLING NEWSPAPERS AND DOING

BREST !



OTHER SIMILAR JOBS

TACITLY ACKNOWLEDGED THAT SUCH A LARGE

NUMBER OF CIVELIAN-CLOTHED SECURITY MEN COULD NOT

EASILY BE ABSORBED AMONG THE LOCAL POPULACE WITHOUT

BEING BETECTEDY.

19 AUGUST ALL BON-SCHEDULED AND PRIVATE FLIGHTS WILL BE PROHIBITED

FROM THE PURRIO VALLARTA AREA. (SOURCE: U.S. TEMBASSY

OFFICIALS'

3. IN ANTIGIPATION OF A REQUEST FOR ENERGENCY

ELECTRICAL POWER FOR THE PRESIDENTIAL PARTIES, SINCH

R O D R I G UFE Z WAVARRO OFFICIAL OF THE LOCAL POVER

AND LIGHT COMPANY, SAID THAT HE CAN HAVE EITHER A 75 KV

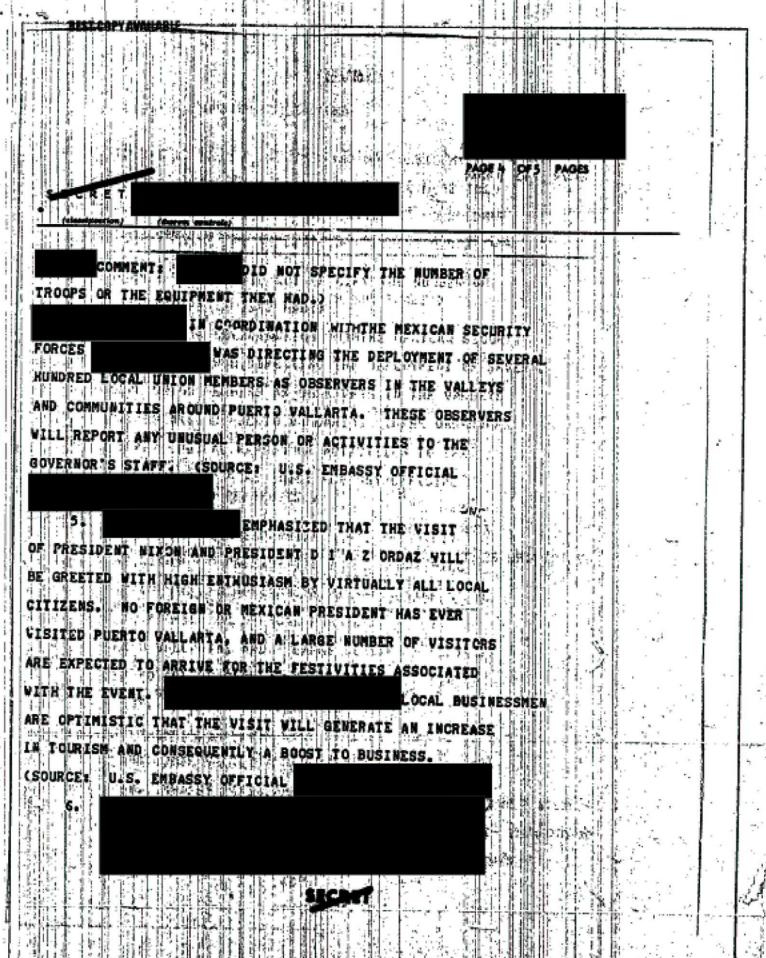
OR 150 XW AUXILIARY SENERATOR IN OPERATION IN ANY ZONE

OF THE CITY WITHIN TWO HOURS AFTER IT IS REQUESTED.

CSOURCE: U.S. EMBASSY OFFICIAL

HAS ADVISED THAT TROOPS UNDER THE

GENERAL JOSE B A R C I A MARQUEZ, COMMANDER OF THE 15TH MILITARY ZONE, VERE BEGINNING TO MOVE INTO POSITION IN THE HILLS AND VALLEYS AROUND PUERTO VALLARTA.



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Title:	PUERTO VALLARTA, MEXICO, SITREP AS OF 1930 HOURS LOCAL TIME, 19 AUGUST 1970
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Release Decision:	RIPPUB
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Intelligence Information Cable

PRIORITY (b)(3)

PAGE 1 OF 4 PAGES

THIS IS AN INFORMATION REPORT, NOT FINALLY EVALUATED INTELLIGENCE

SECRE

DIST 20 AUGUST 1970

COUNTRY: MEXICO

SUBJECT

MEXICO, SITREP AS OF 1930

HOURS LOCAL TIME, 19 AUGUST 1978

OF 19 AUGUST, THE PRESIDENTIAL GENERAL STAFF STAGED A
DRESS REHEARSAL OF THE ARRIVAL OF PRESIDENT NIXON AT THE
PUERTO VALLARTA AIRPORT. U.S. AGENCIES WHO WILL BE
INVOLVED IN THE ARRIVAL ALSO PARTICIPATED IN THIS REHEARSAL.
THE REHEARSAL CONSISTED OF A MRACH-IN AND PLACEMENT OF THE
TROOPS FROM THE MILITARY HONOR GUARD, FOLLOWED WITH THE
PLAYING OF BOTH NATIONAL ANTHEMS BY THE ARMY BAND STATIONED
NEAR TO WHERE THE PRESIDENTIAL PLANE WILL PARK. AFTER THE
PLAYING OF THE NATIONAL ANTHEMS, A BATTERY OF FIELD GUNS,
SITUATED ON THE OPPOSITE SIDE OF THE AIRPORT APRON,

APPROVED FOR BELEASE DATE: MAR 2000





PAGE 2 OF & PAGES

FIRED THREE PRACTICE ROUNDS IN PREPARATION FOR THE PRESIDENTIAL TWENT. ONE GUN SALUTE, WHICH WILL TAKE PLACE UPON PRESIDENT NIXON'S ACTUAL ARRIVAL. THE U.S. AND MEXICAN OFFICIALS, WHO WILL PARTICIPATE IN THE CEREMONIES ON 28 AUGUST, THEN BRIEFLY WALKED THROUGH THEIR ROLES. (SOURCE: U.S. EMBASSY OFFICIALS.)

SHARLS; HOWEVER: 11 YAS DELAYED FREQUENTLY, AND THERE
WAS A CONSIDERABLE QUESTIONING OF PROCEDURES AND
REPETITION OF MOVEMENTS. ALTHOUGH PLANS HAD ORIGINALLY
BEEN MADE TO STAGE THE ENTIRE MOTORCADE TO THE QUINTA
LAURA, THE RESIDNECE WHERE PRESIDENT NIXON WILL STAY,
THE REHEARSAL ACTUALLY ENDED AT THE AIRPORT WITH A BRIEFING
ON THE ASSIGNMENT OF VEHICLES THAT WILL CONTINUE FROM THE
AIRPORT TO QUINTA LAUNA. THE MILITARY TROOPS THAT WILL
GUARD THE MOTORCADE ROUTE DID, HOWEVER, TAKE UP THE
POSITIONS WHICH THEY WILL OCCUPY ON THE OCCASION OF THE
ACTUAL MOTORCADE. (SOURCE: U.S. EMBASSY OFFICIALS.)

3. THE MEXICAN PERSONNEL WHO PARTICIPATED IN
THIS DRESS REHEARSAL WHERE QUITE EFFICIENT, AND THE





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TROOPS PRESENTED A HEAT AND PROFESSIONAL APPEARANCE.

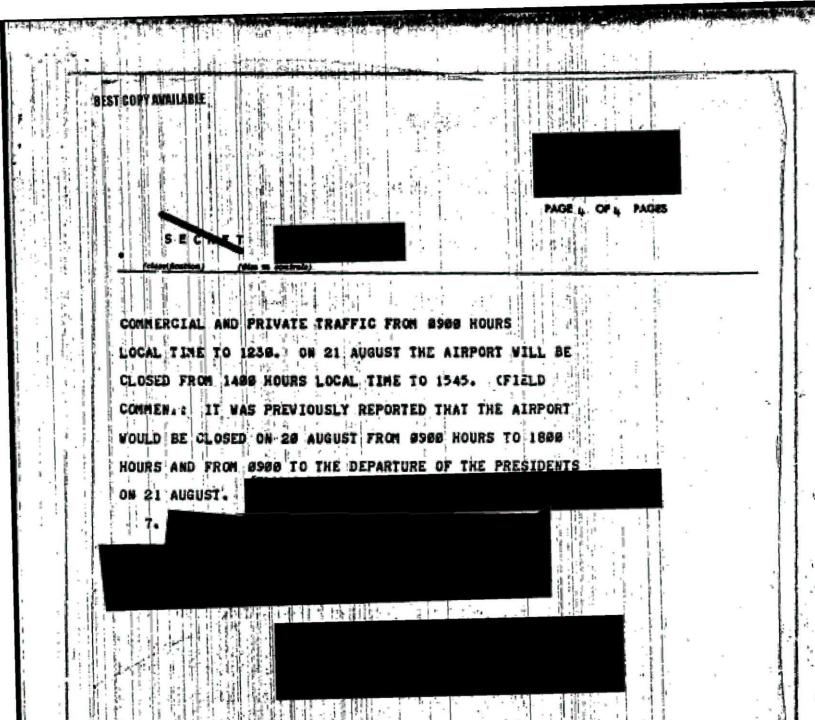
THEIR MOVEMENTS WERE GOOD, AND DESPITE THE DELAYS,

THERE WAS NOT A GREAT DEAL OF CONFUSION. (SOURCE: U.S. EMBASSY

OFFICIALS.)

- A. MOST PARTICIPANTS SEEMED TO FEEL THAT THE
 REHEARSAL HAD BEEN SUCCESSFUL ENOUGH TO AUGUR WELL
 FOR A SMOOTH AND ATTRACTIVE CEREMONY ON THE 20TH.
 COOPERATION BETWEEN U.S. AND MEXICAN OFFICIALS WAS
 SMOOTH AND BUSINESS LIKE. (SOURCE: U.S. EMBASSY
 OFFICIALS.)
- 5. THERE WILL BE THIRTY-FIVE UNIFORMED MEN OF THE PRESIDENTIAL GUARD, TRAINED IN RIOT CONTROL AND EQUIPPED WITH TEAR GAS DISPENSERS, ON HAND FOR THE VISIT. IN ADDITION, ALL PLAINCLOTHES OFFICERS OF THE PRESIDENTIAL GUARD WILL BE EQUIPPED WITH MACE.
- 6. LATE AFTERNOON LOCAL TIME 19 AUGUST, A RADIOGRAM
 WAS RECEIVED AT PUERTO VALLARTA INTERNATIONAL AIRPORT
 ANNOUNCING A NEW SCHEDULE FOR THE AIRPORT FOR 20 AND 21
 AUGUST. ON 20 AUGUST THE AIRPORT WILL BE CLOSED TO ALL

SPORET



Abstract:	THIS ARTICLE (WEEKLY REVIEW, SECRET CLASS) AND THA
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DIRECTORATE OF INTELLIGENCE

WEEKLY REVIEW

Top Secret

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27 November 1970

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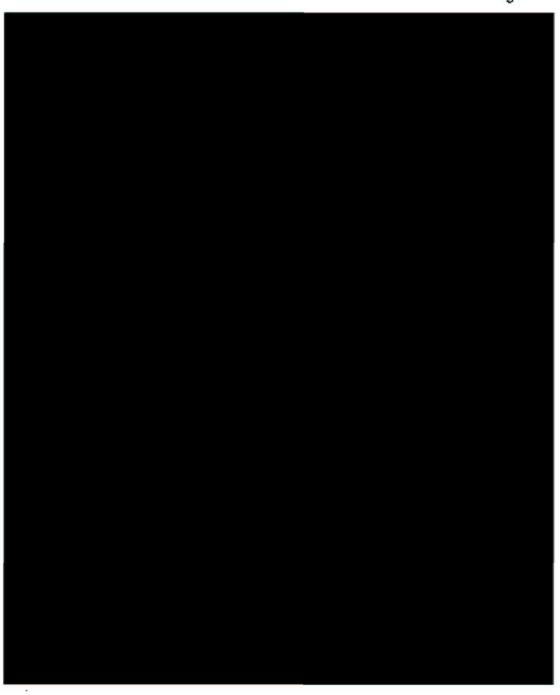
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CONTENTS

(Information as of noon EST, 25 November 1970)

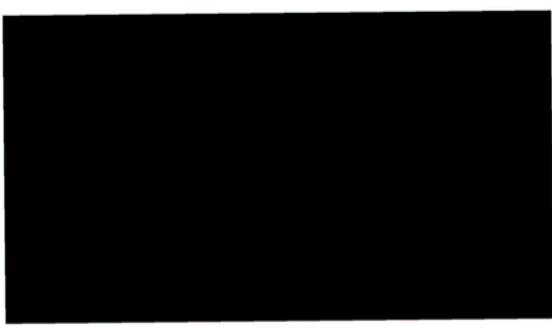
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TOP SECRET UMBRA



Mexico: New President Foresees Good Relations With the US 21

TOP SECRET UMBRA

APPROVED FOR RELEASE DATE: APR 2001

Mexico: New President Foresees Good Relations with the US The Mexican presidential succession on 1 December holds promise for another good era of US-Mexican relations. Incoming President Luis Echeverria's strong but realistic nationalism gives him a clear understanding of the overwhelming importance of the United States to Mexico, and he clearly intends this "special relationship" to be an asset rather than a problem. Echeverria considers his meeting with President Nixon this month a total success, and he believes that now that he has established a good personal friendship with the US President he can pursue Mexico's interests in bilateral affairs with full vigor. Despite the number of problems he had with the US, outgoing President Diaz Ordaz leaves his successor a healthy legacy of achievement in the fence-mending field, particularly in the form of settled boundary disputes.

TOP SECRET UMBRA

Although a number of constant vexations will continue to test US-Mexican friendship, increasingly constructive bilateral exchange looks hopeful.

TOP SECRET UMBRA

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WEEKLY REVIEW

27 Nov 70

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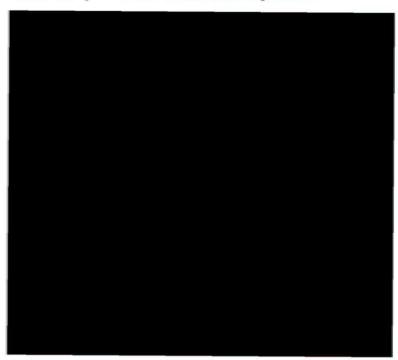
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TOP SECRET UMBRA

MEXICO: The government is in a dilemma over how to handle the three-day state visit of Chilean President Allende scheduled to begin on 30 November.

The Echeverria administration would like to use the visit to gain favor with the domestic left, the "third world," and Chile itself. It is also aware of the possibility, however, that public appearances by Allende could provoke demonstrations ostunaibly in his favor, but which could also take on antigovernment overtones. Such a situation arose on 25 October when a rally originally called in support of Chile was quickly stopped by the government when antigovernment themes were expressed.

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18 Nov 72

Central Intelligence Bulletin

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TOP SECRET UMBRA

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SPECIAL NATIONAL INTELLIGENCE ESTIMATE

Ecnevama and United States Mexican Relations

SNIE 81-73

ECHEVERRIA AND UNITED STATES-MEXICAN RELATIONS

ECHEVERRIA AND UNITED STATES-MEXICAN RELATIONS

PRÉCIS

President Luis Echeverria is more sensitive to his country's problems than most of his recent predecessors. He is concerned about the threat that poverty and uneven development pose to political stability and economic growth, and about the ability of the long dominant party, the PRI, to provide political continuity and social peace. So far he has moved cautiously to attack these problems. He will probably remain cautious, because of limited resources, a fear that rapid change would itself endanger stability, and a desire not to undermine his own position or that of the PRI.

For domestic political reasons, Echeverria, like his predecessors, projects the strong nationalism that pervades Mexican society. This accounts in part for his criticism of the US and other rich nations for their policies toward the developing countries, and his more assertive line toward the US generally. He wants to play a conspicuous role as spokesman in Latin America and the Third World, not only to demonstrate Mexico's independence, but also to increase its prestige and to support a bid for regional leadership.

Mexico's circumstances and Echeverria's domestic objectives require that he maintain good relations with the US. He is in any event not viscerally anti-American and he has a large measure of admiration for the US. His intention is to maintain his nationalistic credentials and play an assertive role abroad without damaging his much more important relationship with the US. Since Echeverria's assertiveness must be public, he tries to balance it by giving the US private explanations and assurances, and hopes that in Washington's eyes this will suffice. He also argues that Mexico can help the US by playing a moderating role with the nationalistic leaders of the hemisphere and in the Third World.

If Echeverria felt forced to choose between a continuation of his critical posture and the maintenance of good relations with the US, he would opt for the latter. In doing so, he would need room to maneuver his way without appearing to bow to US pressure.

SECRET

Sept.



THE ESTIMATE

I. THE PROBLEM

The behavior of President Luis Echeverria reflects an increasingly assertive line towards the US—particularly his role as spokesman for the Third World but also his sponsorship of additional controls over foreign business. This Estimate assesses the meaning of Echeverria's activities in the Mexican context and considers their implications for US interests.

II. MEXICO UNDER ECHEVERRIA

- 2. Echeverria is a shrewd, tough, practical politician, who worked his way to the top through the Institutional Revolutionary Party (PRI) and the Ministry of Government, which handles security and intelligence. The PRI has controlled Mexico's politics for decades. Under the Mexican system, Echeverria exercises almost unchecked authority over the government during his single term (1970-1976), though he must take into account the interests of the middle class groups and the party bosses that dominate the PRI.
- 3. Echeverria is more energetic than most of his recent predecessors and more aware of his country's problems. He sees the system that has provided 40 years of political stability and economic growth under challenge, and he intends to revitalize it. He has two broad domestic concerns. One is for poverty and uneven development and the threat they pose to political stability and continued economic growth. The other is for the health and effectiveness of the PRI, which he sees as increasingly isolated and unresponsive to popular needs, and in danger of losing its historical ability to provide for political continuity and social peace.

4. Despite his many statements on these matters, it is difficult to know the extent of the changes Echeverria has in mind. The problem of interpretation goes beyond the inevitable gap between actions and rhetoric. It reflects a degree of uncertainty imposed by the existence of contradictory pressures and goals.

The Problems of Uneven Development

- 5. Over half of Mexico's 52 million people are locked into poverty. During the postwar period the economy has grown at a very respectable sate of six percent per year, but the population is now expanding by well over three percent. The emphasis of government policy has been on modernization and rapid development, rather than on social welfare. The poor are still quiescent, as a result of apathy and fear of authority, but their numbers keep rising. Echeverria fears that in time the sheer magnitude of the problem will create an avalanche of pressure against constituted authority. Yet he knows that any substantial reduction of poverty will take decades, perhaps generations, and that a major attack on it would overtax available resources.
- 6. In a barrage of propaganda, Echeverria has castigated the privileged classes for their indifference to the problem of poverty, and has called for far-reaching change. He probably hopes to placate the poor and disarm radical critics of the system. But his immediate objective is to convince the conservative elites that it is in their own best interest to join him in addressing the problems of poverty and uneven development in practical and measured ways.
- Despite his rhetoric, Echeverria has moved cautiously so far. There have been some tax and budget changes aimed at re-

distributing income, some changes in investment priorities designed to stimulate industrial development in rural areas, and the beginnings of a program to reduce the birthrate. He will probably stick to cautious and limited measures, because of the constraints under which he must operate: limited resources, the need to maintain rapid growth even as its fruits are distributed more equitably, and the fear that rapid change would cause a backlash among investors and in the PRI and endanger political stability.

Dealing with Political Tensions



tion among the politically articulate at the inability of new or critical political groups to make their views felt within the system. Echeverria is worried about the growing political tensions and the need to revitalize the PRI. He has tried to ingratiate his administration with students, young professionals, and other disaffected elements, inviting them to make their influence felt within the PRI, or outside it as a loyal opposition.

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9. Although Echeverria is probably sincere in wanting to co-opt or accommodate his critics, there are limits on what he can do. The main constraint is an unwillingness to jeopardize the political monopoly of the PRI or to undercut his own primacy. Also, Echeverria and his colleagues are products of the system. They see the PRI as the only legitimate ruling force, and their instinct is to equate any organized activity against government policy with subversion. Thus, the government has reacted forcefully to political activity which it views as unacceptable challenges to its control, e.g., student demonstra-

tions, pressures for greater local autonomy, and demands for a genuine two-party system.

10. Given the conflicting desiderata, it is questionable whether Echeverria can succeed in what amounts to a delicate balancing act. He will be able to maintain political stability during his own term, but it is doubtful that he can prevent the buildup of political tensions and frustrations over the longer run.;

III. ECHEVERRIA AND THE UNITED STATES

11. Contradictory pressures and values are also at work in Echeverria's relations with the US. His attitude toward the US contains a large measure of admiration, mixed though it is with envy and resentment. He accepts as inescapable that Mexico's national destiny is tied closely to that of the US. But for domestic political reasons, he also feels it imperative to maintain a nationalistic posture.

12. Echeverria realizes that a cooperative relationship is essential to Mexico's economic development and, ultimately, to its political stability. Whereas trade between the two countries accounts for three percent of total US exports and imports, it accounts for 60 percent of Mexico's. Total Mexican imports, which are mostly capital goods and raw materials needed for industrial growth, currently exceed exports by about \$1 billion per year. This deficit is made up by earnings from US tourism, by remittances from Mexicans working in the US, and by foreign investment and credit, mostly from the US. Thus, the Mexican economy is vulnerable to a deterioration of relations with the US.

13. Nevertheless, Echeverria feels he must be responsive, to a greater or lesser degree, to the strong nationalism that pervades Mexican society. It is a nationalism much like that of many other developing nations. Echeverria, who is wary of communism, was quick to expel five ranking members of the Soviet Embassy in 1971, because the USSR had been indirectly involved in the movement of Mexican extremists to North Korea for training in guerrilla warfare.

 Echeverria is ambitious to achieve a prominent role for Mexico as spokesman for the developing nations. He wants to demonstrate Mexico's independence, elevate its international prestige, and support a bid for leadership in regional affairs. From his point of view, the more independence of US interests he can exhibit the greater the payoff domestically and internationally-including, perhaps, increased leverage on US actions towards Mexico. He has posited an adversary relationship between the developed countries and the have not nations, and he has been highly critical of the US and other rich nations for alleged injustices perpetrated against the underprivileged Third World, Still, Echeverria has no intention of damaging his much more important relations with the US to achieve the gains he anticipates from a more assertive role in Third World and regional affairs.

15. Since his assertive role must be a public one, he balances it by giving the US frequent private explanations of his purposes and assurances of his basic friendship. He insists that Mexico will be in a position to play a moderating role among nationalist nations and to serve as counterpoise to such vociferous exponents of "anti-imperialism" as Castro and Allende. But Echeverria feels he must maintain a credible independence of US policy to play a moderating role. This dualism will

be reflected in efforts by Echeverria to serve as diplomatic bridge between Washington and some of the capitals of Latin America, as he has privately offered to do.

16. It is essential to Echeverria that Washington understand and accept the game he plays. Because of what he sees as a good track record of support for the US when it really counts, he probably believes that Washington does. If he became convinced that the US considered his words and actions too costly to its own interests, he would draw back, provided he did not feel pushed to the wall.

IV. BILATERAL PROBLEMS OF CURRENT CONCERN: INVESTMENT, SALINITY, DRUGS

Restrictions on Foreign Investment

17. The relationship between government and business in Mexico in recent years has been described as an "alliance for profits". Though in past decades Mexico led the way in Latin America in imposing controls over foreign capital, the impact of the various restrictions has been outweighed by special advantages for US investors: proximity, political stability, a relatively large domestic market, sound financial management, and especially a strong record on such sensitive matters as the remittance of profits and compensation for nationalized foreign assets. There now is more than \$3 billion of direct foreign investment in Mexico, of which about two-thirds is from the US.

18. Mexico has recently passed laws which expand government control over foreign business. They call for closer scrutiny of new investment proposals, majority Mexican control over new enterprises, and government review of contracts involving the import of technology. The laws will make Mexico somewhat

less attractive as a locale for foreign investments. They are in part, however, a response to requests from foreign businessmen for a clear statement of the rules of the game, and they will probably blunt the thrust of ultranationalistic elements who would like to severely curtail the role of foreign capital. The measures affecting investment represent for the most part a codification of existing practices, and they give the government broad discretionary powers to grant exceptions. Such exceptions will be forthcoming, if only because Mexico cannot produce the capital to acquire a 51 percent share of all new enterprises.

19. Through these and subsequent measures, Echeverria will aim to increase the Mexican share of ownership and management of business enterprises, to channel new investment and technology in accord with Mexican priorities, and to reduce the visibility of US participation in the economy. To the latter end, he will also encourage European and Japanese investment. As a result, some US businessmen will experience reduced opportunities, closer supervision of their activities, and, in certain cases, smaller profit margins.

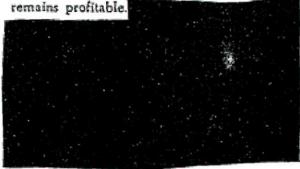
20. But Echeverria gives every indication that he intends the impact of his measures to be gradual and moderate, and that foreign investment will be welcome as long as it has a good export potential, introduces new technology, and helps to reduce unemployment. He will work to avoid damage to the business climate by consulting regularly with the leaders of the American community, by enforcing new measures judiciously, and by backtracking discreetly should that prove necessary. Echeverria realizes that a broad loss of confidence in Mexico would ruin the now strong prospects for a continued high rate of economic growth.

Salinity

21. Echeverria has staked his personal reputation on gaining an equitable solution to the problems of the Mexicali region, where the waters of the Colorado River flowing in from the US have a saline content which adversely affects agriculture. He has led the Mexican public to expect some dramatic concession from the US, and he appears confident that the Brownell study, personally commissioned by President Nixon, will resolve the long-standing impasse. Unless he sees substantial progress soon, Echeverria will feel impelled to seek adjudication by a third party or to present a claim for redress at the World Court.

Drug Control

22. Mexico is both a producer of illicit drugs for the US market and a conduit for drugs produced elsewhere. The Echeverria government has agreed to cooperate fully with the US effort against the drug traffic. It has committed considerable resources to support the commitment, and in response to US urging, would probably commit more. But even with all of Echeverria's political clout, the flow of drugs will be difficult to slow and all but impossible to stop, so long as the US market



23. Because of these domestic constraints and because he will want to avoid the appearance of acting under US pressure, Echeverria will feel it necessary to move gradually

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and carefully. The control of drugs could therefore become a serious bilateral issue. Echeverria would expect, and accept, some US criticism of the Mexican effort. But he would resent an accusation that he personally was being non-cooperative, and he would resist US pressures to put into effect a stronger control effort than he thought feasible. He would probably react by charging the US with interference in Mexican affairs and by reducing Mexican cooperation, at least temporarily. He would almost certainly try to minimize the impact of the drug issue on other aspects of bilateral relations.

V. IMPLICATIONS

24. The principal finding of this assessment is that Echeverria needs and wants a cooperative relationship with the US. His initiatives in the areas of Third World leadership and control over foreign investment are less important to him, even though for domestic political reasons he feels it imperative to maintain a generally nationalistic stance. Thus, if it became clear that he was endangering Mexico's relations with the US, he would modify his public posture—though he would need room to maneuver his way, without appearing to bow to US pressure.

Title:	WHB: MEXICO	
Abstract:		
Pages:	0002	
Pub Date:	3/1/1974	
Release Date:	2/20/2002	
Keywords:	KIDNAPPED PATTERSON JOHN	
Case Number:	F-1998-00616	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	

OUTGOING MESSAGE WESTERN HEMISPHERE BRIEF D46-74-4 ITEMS MARKED & HAVE BEEN COORDINATED WITH THE DEPARTMENTS OF STATE AND DEFENSE.Y 81. //MEXICO: US VICE CONSUL JOHN PATTERSON WAS REPORTEDLY KIDNAPED IN HERMOSOLLO ON MARCH 22 AND IS BEING HELD FOR \$500-000 RANSOM BY THE PEOPLE'S LIBERATION ARMY OF MEXICO. ACCORDING TO A NOTE IN PATTERSON'S OWN HANDWRITING-//Y //UNLIKE DEMANDS MADE IN PREVIOUS KIDNAPINGS CARRIED OUT FOR POLITICAL PURPOSES BY MEXICAN DISSIDENT GROUPS. THE NOTE CALLED FOR NO PUBLICITY AND DID NOT DEMAND THE RELEASE OF PRISONERS HELD BY THE MEXICAN GOVERNMENT.//Y //MOREOVER. A TIGHT SCHEDULE FOR PAYMENT OF THE RANSOM--HALF

//MOREOVER. A TIGHT SCHEDULE FOR PAYHENT OF THE RANSOM--HALF
TO BE TURNED OVER TO PATTERSON'S WIFE IN MOGALES ON SUNDAY MORNING
AND THE OTHER HALF. AGAIN BY HIS WIFE. IN MEXICO CITY SUNDAY NIGHT-SUGGESTS THAT THE PERPETRATORS' MAIN INTEREST HAY BE IN OBTAINING

THE MONEY.

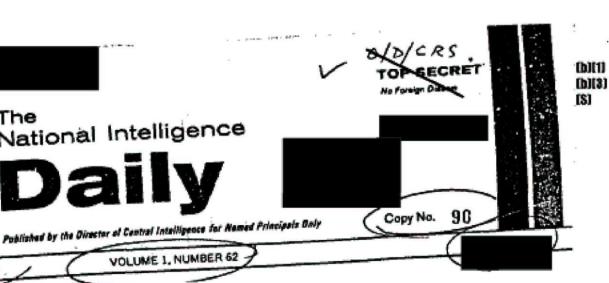
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APPROVED FOR RELEASE DATE: JAN 2002

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//HERMOSILLO	STATE SHT NI ZI	OF SENORA, WHERE I	U *
AUTHORITIES RECEN	TLY ARRESTED FOUR	MEMBERS OF THE 23	IRD OF SEPTEMBER
COMMUNIST LEAGUE.	ALTHOUGH THERE	IS NO EVIDENCE TO	LINK YESTERDAY'S
KIDNAPING TO THE	COMMUNIST LEAGUE.		
	THE GROUP H	AD INTENDED TO KID	NAP A US CITIZEN
RESIDING IN MEXIC	O. ONE OF THE FO	UR HAD PARTICIPATE	D IN THE KID-
NAPING OF US CONS	UL GENERAL TERRAN	CE LEONHARDY IN GU	ADALAJARA IN
HAY 1973. (SEERE	1	//4	

Title:	NID: US OFFICIAL KIDNAPPED IN MEXICO	
Abstract:		
Pages:	0001	
Pub Date:	3/23/1974	
Release Date:	2/20/2002	
Keywords:	KIDNAPPED PATTERSON JOHN	
Case Number:	F-1998-00616	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	



US Official Kidnaped in Mexico

US Vice Consul John Patterson was reportedly kideaped in Hermoeillo yesterday and is being held for \$500,000 ransom by the Prople's Liberation Army of Mexico, according to a note in Patterson's own handwriting.

VOLUME 1, NUMBER 62

National Intelligence

The

SATURDAY MARCH 23, 1974

Unlike demands made in previous kidnapings carried out for political purposes by Mexican dissident groups, the note called for no publicity and did not demand the release of prisoners held by the Mexican Government,

Moreover, a tight schedule for pay-

ment of the ransom-half to be turned over to Patterson's wife in Nogales on Sunday morning and the other half, again by his wife, in Mexico City Sunday night-suggests that the perpetrators' main interest may be in obtaining the money.

Hermosillo is in the state of Sonors, where Mexican authorities recently arrested four members of the 23rd of September Communist League. Although there is no evidence to link yesterday's kidneping to the Communist League,

the group had intended to hidney a US citizen residing in Mexico. One of the four had perticipated in the kidnaping of US Consul General Terrance Leonhardy in Guedalajara in May 1973.

APPROVED FOR RELEASE DATE: JAN 2002

Title:	U.S. VICE-CONSUL KIDNAPPED IN MEXICO	
Abstract:		
Pages:	0002	
Pub Date:	3/27/1974	
Release Date:	2/20/2002	
Keywords:	KIDNAPPED PATTERSON JOHN	
Case Number:	F-1998-00616	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	

Secret

(P)(3) (P)(1)



Weekly Situation Report on International Terrorism

APPROVED FOR RELEASE DATE: JAN 2002

27 March 1974

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U.S. Vice-Consul Kidnapped in Mexico

John Patterson, the U.S. Vice-Consul in Hermosillo, Mexico was kidnapped on 22 March, allegedly by members of the hitherto unknown Peoples' Liberation Army of Mexico. Patterson was last seen leaving the consulate that morning, presumably en route to an 11 a.m. meeting with Mexican officials. The appointment was never kept and when the consulate reopened after lunch a ransom note was discovered. Written by Patterson, the note demanded the payment of \$500,000 to be made in two equal installments. One payment was to be made in Nogales, Mexico the morning of 24 March, the second in Mexico City later that day. The kidnappers also demanded that no news release of the kidnapping be issued and threatened that if they were betrayed or if a member of the Peoples' Liberation Army was detained, the kidnappers were prepared to murder a U.S. official or a member of a U.S. official's family each week until those detained were released and allowed to leave Mexico unharmed.

Arrangements were made to meet the kidnappers' demand; however, no contact was made by the kidnappers at either Nogales or Mexico City at the appointed times.

may be American rather than Mexican.

sion on several factors, including the wording of the ransom note and the title of the ostensible revolutionary organization, both of which are not in keeping with Mexican leftist terminology. The manner in which the proposed payments were to be effected--one in a border town, the other near the Mexico City International Airport--does not fit the modus operandi of previous Mexican terrorist kidnapping operations and suggests that the kidnappers may have considered fleeing to the United States. Also considered suspicious were the requirement that the ransom payments be made in dollars rather than pesos and the fact that Vice-Consul Patterson was last seen in the company of an unidentified American at about the time of the kidnapping.

As of 26 March there has been no reported contact with or further instructions from the kidnappers.

SECRET

Title:	U.S. DIPLOMAT KIDNAPPED IN MEXICO STILL MISSING	
Abstract:		
Pages:	0002	
Pub Date:	4/3/1974	
Release Date:	2/20/2002	
Keywords:	KIDNAPPED PATTERSON JOHN	
Case Number:	F-1998-00616	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	

Secret

(B)(3) (B)(1)



Weekly Situation Report on International Terrorism

APPROVED FOR RELEASE DATE: JAN 2002

3 April 1974

Secret 1

(b)

U.S. Diplomat Kidnapped in Mexico Still Missing

John Patterson, the U.S. Vice-Consul in Hermosillo, Mexico who was kidnapped on 22 March, is still being held captive, presumably in Mexico. There has been no further communication from either Patterson or his captors since a ransom note written by Patterson was discovered at the consulate on the afternoon of his disappearance.

Rumors regarding Patterson's kidnapping, including one stating that he was last seen transferring from the consulate vehicle to a camper at a gas station outside Hermosillo, have been checked and have not been substantiated.

Despite efforts to comply with the kidnappers' demand that there be no publicity, the U.S. and Mexican press have picked up the story and given it wide dissemination. Although some Mexican officials contend that the kidnapping may be a hoax, U.S. authorities believe that in the absence of evidence to the contrary, Vice-Consul Patterson's disappearance should be considered a kidnapping.

SECRET

Title:	KIDNAPPED U.S. VICE-CONSUL STILL MISSING	
Abstract:		
Pages:	0002	
Pub Date:	4/10/1974	
Release Date:	2/20/2002	
Keywords:	KIDNAPPED PATTERSON JOHN	
Case Number:	F-1998-00616	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	

Secret



(8) (b)(3) (b)(1)



Weekly Situation Report on International Terrorism

APPROVED FOR RELEASE DATE: JAN 2002

10 April 1974

Secret

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SECRET

NOTES

Kidnapped U.S. Vice-Consul Still Missing

There have been no significant new developments in the kidnapping of John Patterson, the U.S. Vice-Consul in Hermosillo. According to the Mexican press, Mexican authorities believe that Patterson, who was seized on 22 March allegedly by a group calling itself the People's Liberation Army of Mexico, may have been taken from Mexico to the United States.

(b) (S)

Title:	NO NEW DEVELOPMENTS IN KIDNAPPING OF U.S. VICE-CONSUL
Abstract:	
Pages:	0002
Pub Date:	4/24/1974
Release Date:	2/20/2002
Keywords:	KIDNAPPED PATTERSON JOHN
Case Number:	F-1998-00616
Copyright:	0.
Release Decision:	RIPPUB
Classification:	U

Weekly Situation Report on International Terrorism (b)(1) (b)(3) (8)

APPROVED FOR RELEASE DATE: JAN 2002

24 April 1974

Secret 1

No New Developments in Kidnapping of U.S. Vice-Consul

U.S. and Mexican authorities are continuing their investigation into the kidnapping of John Patterson, the U.S. vice-consul in Hermosillo, despite press reports that Mexican officials have quietly withdrawn from the case. Although efforts to discover Patterson's whereabouts have continued unabated since he disappeared on 22 March, there have been no new developments in the case. remain convinced that Patterson was abducted by Americans bent on financial gain and was not the object of a political kidnapping by Mexican revolutionaries.

2 4 APR 1974

Title:	FBI ANNOUNCES ARREST IN PATTERSON CASE	
Abstract:		
Pages:	0002	
Pub Date:	6/5/1974	
Release Date:	2/20/2002	
Keywords:	KIDNAPPED PATTERSON JOHN	
Case Number:	F-1998-00616	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	

-Secret



Weekly Situation Report on International Terrorism

APPROVED FOR RELEASE DATE: JAN 2002

5 June 1974

Secret 100

Title:	NID: LATIN AMERICA KIDNAPPING TESTS MEXICAN POLICY
Abstract:	
Pages:	0001
Pub Date:	6/5/1974
Release Date:	7/6/2001
Keywords:	MEXICO GUERRILLA COUNTERINSURGENCY CABANAS LUCIO
Case Number:	F-1998-00157
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

RELEASE IN PART EXEMPTIONS: (b)(1) CP3C33 DATE: JUL 2001

The National Intélligence

Published by the Director of Control Intelligence for Named Principals Only

Copy No.

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TCS 558/74

SDAY JUNE 5, 1974

VOLUME I, NUMBER 124

WEDNESDAY JUNE 5, 1974

TCS 558/74 THE NATIONAL INTELLIGENCE DAILY

LATIN AMERICA

Kidnaping Tests Mexican Policy

The kidnaping by leftist guerrillas of a well-known Mexican Senetor will test the Echeverris government's policy of not giving in to kidsapem' demands.

Interior Minister Mays announced Monday that the sensior and four essociates had been abducted on May 30 by Lucio Cabanas' guerrilla group, the country's chief rural terrorist band. Cabanas operates in Guerreso, a state south of Mexico City, where he mcrives considerable support from the pessents.

Adding to the government's concern is the fact that the senstor is the administration's choice for governor in elections scheduled for later this year in Guerrere. He had promised in his exmpaign to "pacify" the state, and had apparently journeyed to the rugged mountains near Acapulco to meet with Cabanas and offer him

"total amnesty."
Thus for the kidnepen' only clear demand for the release of the victims is the removal of army troops and police from aress where Cabanas operates. Press reports lest night indicated that local police have been withdrawn from the areas.

Secretary Moya says the federal government will make no decision on how it will react until it is certain that the victims are alive and Canabas' demands are made more precise. Cabanas has been known to execute victims when ransom demands were not met.

Title:	MEXICAN OFFICIAL MEETING W/WIVES OF LETELIER AND ALMEYDA
Abstract:	
Pages:	0003
Pub Date:	6/13/1974
Release Date:	3/8/2004
Keywords:	HUMAN RIGHTS PINOCHET CHILE-I
Case Number:	SS-1999-00002
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

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ROUTINE

NSC/S NIO

THIS IS AN INFORMATION REPORT, NOT FINALLY EVALUATED INTELLIGENCE

DIST 13 JUNE 1974

1.5 (c)

WIVES THAT HE HAD DISCUSSED THE CHILEAN REFUGEES WITH CUBAN PRIOR TO COMING TO CHILE.

CASTRO SAID THAT HE WAS NOT INTERESTED IN

SEGRET
(stand/partica) (diserm controls)

RECEIVING CHILEAN REFUGEES IN CUBA AND BELIEVED THE CHILEAN REVOLUTIONARIES SHOULD REMAIN IN CHILE AND WORK ON CREATING AN ANTI-JUNTA REVOLUTIONARY FORCE RATHER THAN TAKING EXILE.

THAT CASTRO HAD EXPRESSED AN INTEREST IN PROVIDING ASSISTANCE ONLY TO ALMEYDA AND LETELIER.

TO ASK

THE JUNTA FOR PUBLIC AND LEGAL TRIALS IN ACCORDANCE WITH UNITED

NATIONS' PRINCIPLES ON HUMAN RIGHTS: FOR THE EXTRADITION

OF

HER HUSBAND HAS NOT BEEN

PHYSICALLY TORTURED DURING HIS IMPRISONMENT.

THAT THE JUNTA HAD AGREED TO ALLOW ALMEYDA TO LEAVE

CHILE AND GO TO MEXICO AFTER HIS TRIAL HAS COMPLETED. EVEN IF

FOUND GUILTY.

THAT IN EFFECT, THEN, ALMEYDA'S SENTENCE

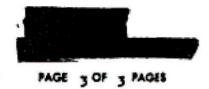
WILL BE EXPULSION FROM CHILE.

UNABLE TO OBTAIN A SIMILAR AGREEMENT FOR

WILL BE REQUIRED TO SERVE OUT HIS SENTENCE. IF CONVICTED, IN CHILE.

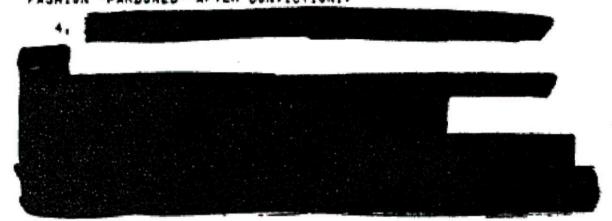
COMMENT OF STATE TELEGRAM 122833 OF 118 JUNE 1974 TREPORTED.

1.5 (c)



SECRET

STATES, CONFIRMED ON 7 JUNE THAT BOTH ALMEYDA AND LETELIER WILL BE ALLOWED TO GO TO MEXICO IF FOUND NOT GUILTY OR IF IN SOME FASHION "PARDONED" AFTER CONVICTION.)



1.5 (c)

SEFRET

Title:	WR: MEXICO: RURAL DISCONTENT	
Abstract:		
Pages:	0003	
Pub Date:	6/14/1974	
Release Date:	6/19/2000	
Keywords:	MEXICO INSURGENT GROUP EPRM	
Case Number:	F-1998-00158	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	





Weekly Review



Top Secret

14 June 1974 SC No. 00764/74

Сору

№ 621

228729 APPROVED FOR RELEASE DATE: JUN 2000



MEXICO: RURAL DISCONTENT

Guerrilla violence and signs of rural discontent are once again plaguing the Echeverria government.

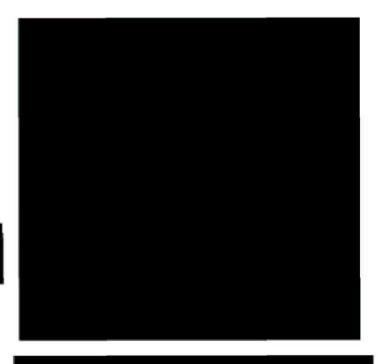
The strange case of the political boss of the southwestern state of Guerrero, Senator Ruben Figueroa, kidnaped two weeks ago by guerrilla leader Lucio Cabanas, remains unresolved. Cabanas operates in Guerrero and receives considerable support from the peasants there. Figueroa, the government's choice for state governor in elections this December, went to a meeting he had proposed with Cabanas to offer him amnesty and wound up Cabanas' prisoner.

Authorities are doubtless searching for a way to free Figueroa unharmed and to capture or kill the troublesome Cabanas at the same time. The government's stated policy is not to give in to kidnapers' demands.

Compounding the Figueroa problem was the kidnaping last week of a wealthy Mexican businessman and the murder of a student leader in Guadalajara. The businessman died while in captivity, apparently of a heart attack, but his abduction brought to light what could be a new guerrilla group called the Salvador Allende Urban Command.

The student's death adds to the tension in Guadalajara, the scene of many acts of violence in the past several months.

Publicly, the government still lumps the guerrillas together with common criminals.



Many in the government also recognize that, in the end, the grievances of the guerrillas will only be resolved by correcting social and economic inequities.

April, 32 campesinos and police were killed in two incidents arising from the use of farm land. These confrontations do not always end in shootouts—sometimes politicians save the situation with fresh promises—but bloodshed on the campo is not uncommon.

The unrest is partly a result of corruption and exploitation, but ignorance, population pressures, a shortage of good land, and the concentration on industry during the last 30 years also play



a part, as do the rising expectations of the peasants. President Echeverria has in some ways heightened these expectations. He came to office in 1970 promising to improve the lot of the peasantry, a commitment he frequently renews during trips to the countryside. He has already made more trips to the provinces than his three predecessors did during their collective 18 years in office, but the peasants have seen little results from these journeys.

Probably the chief factor responsible for the unrest, however, is the government's agrarian policy, with its system of ejido farms. The ejido, a variant of the ancient Indian communal lands, satisfied the urgent political need to give land to millions of impoverished peasants. But it has failed to meet the food needs of the country or the economic needs of the peasants themselves. The Echeverria administration intends to ease the problem of sluggish growth in agricultural production in part by collectivizing more ejidos and by providing them with increased public and private credit. The small landowner will not be forgotten-he too is included in plans for increased lending-but the emphasis will be on collectives and agribusiness.

Title:	NID: ECHEVERRIA ORDERS MILITARY OPERATIONS AGAINST GUERRILLAS
Abstract:	
Pages:	0001
Pub Date:	6/27/1974
Release Date:	7/6/2001
Keywords:	MEXICO GUERRILLA COUNTERINSURGENCY CABANAS LUCIO
Case Number:	F-1998-00157
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

RELEASE IN PART EXEMPTIONS: (b)(1) (b)(3) DATE: JUL 2001

CIFECINID 740627



The National Intelligence



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TOP SPERET
No Francisco
Copy No. 115

URSDAY JUNE 27, 1974

VOLUME I, NUMBER 143

TCS 577/74

Echeverria Orders Military Operations Against Guerrillas

President Echeverra has ordered a military operation against guerrilla leader Lucio Cabanas, who still holds Senator Ruben Figueroa. Paratroopers have been sent to the area in Guerrero State, where Cabanas is believed to be. If the operation succeeds, Cabanas probably will not sur-

Last week, Echeversia is said to have rejected as too risky a proposed army assault on a suspected Cabanas hideout. The President's turnabout came after the government received a communique from the rebel leader. Echeversia concluded that Cabanas' "impossible" demands precluded negotiating for the senator's life.

Cabanas demanded \$4 million, the release of many prisoners, the delivery of guns and ammunition, and publication by the government of "solutions" to a variety of political and economic problems.

Figueroa, a multimillionaire political boss in the state of Guerrero, was kidnaped when he went to a meeting with Cabanas three weeks ago to offer him amnesty. The rendezvous was approved by Echeverria, who had earlier selected Figueroa to be Guerrero's next governor.

Title:	WHB: MEXICO
Abstract:	
Pages:	0001
Pub Date:	7/1/1974
Release Date:	7/6/2001
Keywords:	MEXICO GUERRILLA COUNTERINSURGENCY CABANAS LUCIO
Case Number:	F-1998-00157
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

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WESTERN HEMISPHERE BRIEF 115-74.4

PL. //MEXICO: THE MEXICAN ARMY HAS ARRESTED SOME MEMBERS
OF LUCIO CABAMAS' GROUP BUT HAS FAILED AFTER AN INTENSIVE MONTHLONG SEARCH TO FIND THE ELUSIVE GUERRILLA LEADER OR SENATOR
RUBEN FIGUEROA- WHOM HE KIDNAPED ON MAY 30. THE ARMY HAS
LEARNED FROM THE CAPTURED GUERRILLAS THAT FIGUEROA WAS ALIVE AS
OF MID-JULY AND THAT CABAMAS REMAINS IN HIDING IN THE STATE OF
GUERRERO. SOME 2-000 TROOPS ARE INVOLVED IN THE SEARCH. THE
ARMY'S POOR SHOWING IS BEING CRITICIZED IN THE PRESS AND MAY LEAD

TO CHANGES IN THE HIGH COMMAND.

11

Title:	NIB: MEXICO
Abstract:	
Pages:	0002
Pub Date:	7/8/1974
Release Date:	7/6/2001
Keywords:	MEXICO GUERRILLA COUNTERINSURGENCY CABANAS LUCIO
Case Number:	F-1998-00157
Copyright:	0
Release Decision:	RIFPUB
Classification:	U

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APPROVED FOR RELEASE DATE: JUL 2001

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National Intelligence Bulletin

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Top Secret

1 July 1974
Sc 00162/74

Copy Nº 630

National Intelligence Bulletin

July 8, 1974

MEXICO

APPROVED FOR RELEASE DATE: JUL 2001

A joint military operation against guerrilla leader Lucio Cabanas has not yet produced significant results. The action, involving about 2,000 troops, was launched on June 26 in an effort to kill Cabanas and rescue gubernatorial candidate Senator Figueroa, who was kidnaped with four assistants on May 30.

Mexican naval vessels are patrolling offshore from the area of Guerrero State where Cabanas is believed to be hiding and marines have joined army patrols in cordoning off the area. On July 2, army troops discovered an abandoned camp believed to have been occupied by Cabanas, but-despite unconfirmed press reports of a guerrilla ambush and other clashes—they have apparently been unable to make contact with the group.

Government officials reportedly have little hope the army will find either Figueroa, who they believe has already been killed by Cabanas, or Cabanas himself. While President Echeverria reportedly is considering stationing the additional units involved in the current operation in Guerrero State on a permanent basis to keep pressure on Cabanas, financial constraints may not allow it. (SECRET NO FORELEN DISSEM)

Title:	NID: MEXICAN GUERRILLA LEADER HAS ELUDED MILITARY OPERATIONS
Abstract:	The transfer of the second sec
Pages:	0001
Pub Date:	7/8/1974
Release Date:	7/6/2001
Keywords:	MEXICO (GUERRILLA) COUNTER INSURGENCY (CABANAS LUCIO
Case Number:	F-1998-00157
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

CIRCLINID 740708



The National Intelligence



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RELEASE IN PART EXEMPTIONS: (b)(1) (P)(3) DATE JUL 2001

Dices

Copy No. 115

TCS 586/74

MONDAY JULY 8, 1974

VOLUME I, NUMBER 151

Mexican Guerrilla Leader Has Eluded Military Operations



Title:	BODY OF U.S. VICE-CONSUL BELIEVED FOUND IN MEXICO	
Abstract:		
Pagesi	0002	
Pub Date:	7/10/1974	
Release Date:	2/20/2002	
Keywords:	KIDNAPPED PATTERSON JOHN	
Case Number:	F-1998-00516	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	

Secret



(2) (P)(3) (P)(J)

Weekly Situation Report on International Terrorism

APPROVED FOR RELEASE DATE: JAN 2002

10 July 1974

Secret- 93

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NOTES

Body of U.S. Vice-Consul Believed Found in Mexico

A body believed to be that of kidnapped U.S. Vice-Consul John L. Patterson has been discovered near Hermosillo, according to press reports quoting Mexican police officials. While no positive identification has yet been made, a ring found on the body bore the initials of Patterson and his wife and the date of their marriage. Authorities also stated that clothes found with the body and dental records led to the identification. The remains were discovered in a dried brook off a dirt path about eight miles east of Hermosillo. Police officials said the body had apparently been buried in the brook bed until recent heavy rains uncovered the remains. Patterson, who was on his first diplomatic assignment, was last seen leaving the U.S. Consulate in Hermosillo on 22 March. (See the issues of April, page 3, and 5 June, page 7.) (UNCLASSIFIED)

Title:	WS: MEXICO: THE FIGUEROA CASE	
Abstract:		
Pages:	0002	
Pub Date:	7/19/1974	
Release Date:	7/6/2001	
Keywords:	MEXICO GUERRILLA COUNTERINSURGENCY CABANAS LUCIO	
Case Number:	F-1998-00157	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	





EXEMPTIONS: (b)(1)

Weekly Summary

MEXICO: THE FIGUEROA CASE

The all-out hunt for guerrilla leader Lucio Cabanas has turned up nothing after three weeks. The search, involving about 2,000 army troops as well as units from the other two military services, was launched in an effort to kill Cabanas and rescue Senator Ruben Figueroa, the gubernatorial candidate kidnaped by Cabanas on May 30.

The government mounted the operation, concentrated in the high sierra northwest of Acapulco in Guerrero State, after receiving ransom demands from Cabanas that it termed "impossible" to meet. Government officials have expressed little hope the army will find Figueroa alive. Some army officials believe that Cabanas may have left the area during the nearly fourweek period before troops were sent in. Also, an operation on this scale has never been tried before and the lack of adequate long-range communications is apparent. Bad weather and rugged terrain have further complicated the search. President Echeverria reportedly is considering posting the military units involved to Guerrero on a permanent basis, but financial constraints may not allow it.

Pressed by the Figueroa case to comment publicly on the country's guerrilla problem, Echewerria and other government spokesmen have fallen back on answers clouded by long-established Mexican "revolutionary" traditions and myths. Guerrillas are not working for revolutionary interests, Echeverria says, but are trying

to provoke regressive tendencies. He claims that guerrilla terrorism "appears to be more the work of the right than of the left."

The government's inclination to dismiss a problem with slogans will not ease the situation, and sporadic violence is likely to continue for some time. For the immediate period, guerrillas may try to embarrass Echeverria while he is on his South American trip this month. This may have been the motive behind the bombings this week at both party and military headquarters in Guadalajara.

Title:	NID: GUERRILLA LEADER EVASED OPERATION BY MEXICAN ARM
Abstract:	
Pages:	0001
Pub Date:	7/27/1974
Release Date:	7/6/2001
Keywords:	MEXICO (GUERRILLA) COUNTERIN SURGENCY (CABANAS LUCIO
Case Number:	F-1998-00157
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

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National Intelligence

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VOLUME I, NUMBER 168

TCS 603/74

Guerrilla Leader **Evades Operation** By Mexican Army

The Mexican army has arrested some members of the Lucio Cahanas guerrilla group, but has failed after an intensive month-long search to find the elusive guerrilla leader or Senator Ruben Figueros, who was kidnaped on May 30.

The army has learned from the captured guerrilles that Figueros was alive as of mid-July and that Cabanas remains in hiding in the state of Guerrero. Some 2,000 troops are involved in the search.

The army's poor showing is being criticized in the press and may lead to changes in the high command.

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TCS 640/74

TUESDAY SEPTEMBER 10, 1974

VOLUME 1, NUMBER 205

Guerrillas Are Nuisance to Mexican Government

room against terrorists this weekend, but they are still a long way from minuting the geeriflas capability to

embarram the government.

Senator Ruban Figueron, who had been held captive since May, was smooth on Sunday after a gun bettle in which soldiers wounded a number of members of Locie 'Cabetta' generalle 'group' and arrested several others. The previous day, another group of terrorists freed President Echeverria's fether-is-law, Jose Guadelupe Zono, who had been kidneped on August 28. The government had refus-ed to talk with the kidnepers about terms for the freedom of alther, but it is poss that Zuno's family secretly stat certain of

Ringlenders Under

Ringleaders of both terrorist prosps are still at large, and are unlikely to be serred in their campaign against the

Society officials believe that the Revolutionary Arenal Favous of the Pro-pic, a group that desired credit for kid-naping former US consul general Leonhardy in May 1973, was responsible for Zune's abduction. Three of its members have been arrested. Little in known of this group, but it may be associated with the 23rd of September Communist Langue, mother extremist group that has hidnaped Mexican natables in the recent past, and with a radical student organization based in

Figueros had been a prisoner of Lacin shanes' group for three and a half

Until Echeveria became President in 1970, politically motivated victorics of this sort had been absent from Mexico since the late 1920s. But abortly after his in-superation, Mexico began to experience the same kind of urbes and reral georgia. crime that is common in some other Lath American countries. In 1971 the pover-ment uncovered a group that had received training in North Kores.

A Real Nate

About 15 guerrille groups have sprong up since 1971, but only a handful are now active. The groups are small and are not waging a well-organized, costained, or

They do not threaten the stability of the Echeverrie administration. They do. ecrey, have the capability to carry out clacular acts of violence and terrorism. and they are a real nulsance

Sparts of violence are likely to or for tome time, inserest as the government's response to the problem-increased security efforts. public spending to improve social and economic conditions, and political rhetoric-have to date been largely in-

The most active groups are the Lucio Cabanaa band and the 23rd of September Commental League. Cabanaa, Mexico's best known guerrills, operates mostly in the mountains not far from Acapulco in the southwestern state of Guerrero. He enjoys widespread support and sympethy among the presents.

His group has staged numerous robberies, hidrapings, and at least three daring and professional attacks on isolated army units. He has perhaps 30 to 75 hard-core followers, but our probably mble up to 150 for a particular opera-

The 23rd of September group, walks most of the others, operates in several parts of Mexico and absorbe guerrillas from other groups in the country. Found-ed in 1973, it is urban-based and in organized in small colls in which each member knows only a few others. Its members have a mixed beckground—from political apposition to background—from political apposition to crimical activity. A number are students or hermer students, some with degrees in the wastern from the students of the students to be roughly 500, but it sends be larger. All of those groups appears some form of Marshit succialism, All are dedicated to cheaging the Mesiana gavernment and social system by violent means. All land out at "importation" and "explication"

and claim to speak for the "poor and oppressed" in Mexico.

Except for the North Keesen involve-tent in 1971, there is no solid evidence of foreign support for any of the groups.

Army Deficient

Le recent months the government has dealt serious blows as some of the groups, superially to the 23rd of September Com-munist League. Still, Musican security agencies have revealed operational

The operation to free Senator Rub Figueroe, the governing party's candidate for governor of Georrare, began on June 25, over three weeks after Figueroe disappeared. In all, the government used upward of 10,000 army troops—nearly one seventh of the army's total strength—in the search for Cabanas and incurred such heavy expenses that it had had to divert

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> funds from other government agencies.
>
> Perhaps more uniness for Mexico's security situation was the attempt in January 1974 by the 23rd of September group and radical students at the University of Sinclos to stage something approaching an around oprising in the arrors of Colinean, capital of the western state of Sinates. The government considered the situation serious enough to send in paratroopers from the capital to ensure

that order was restored. The Culiacus violence is the kind of mass action that the 23rd of September mass action tout to 27g or September group adversates. The government's access at quelling it indicates that it may be some time before this group or any other guerrills organization is again in a position to try something on the scale of Culiacte, but there some little reason to doubt that the intent raists and that the same type of action will be attempted again. In the unlikely event that attempts again. In the unitary even that attempts as arroad sprinings are made in several areas in the same time, the government outld be hard pressed to handle them.

The Government Response

The sumulative weight of terrorist in cidents in the past year or so has produced a climate of anxiety, particularly among businessens and the wealthy, who consider themselves possible targets of kidnap attempts. Businessmen were extreme-ly hitter at the Echeverria administration last full after an influential industrialist was murdered by terrorists in the noths

The government's policy of not negotiating with hidrapers, amounted in October 1973, is not stopping the political

A large part of the government's A large part of the government's response to publical violence countes of intensive police work and, as in the Cubiana case, the measive application of military manpower. The rest of the response is a minary of public symulog-and political rheteric. The Figuren kidnaping, for crample, brought forth a house multiplical restrict affect in farth a huge publicity effart to emonstrate how much the Echeveria overnment has done for Guerrero. Although the security forms may im-

prove, some of the other measures hold much hope for success any time soon. The government's social and economic programs cannot be expected in the near term to ameliorate the conditions that give rise to the terrorist and the guerrilla. And the latter are too bury listening to their ows rhetoric to listes to the

TOP SECRET

Title:	UNCERTAIN OUTLOOK FOR MEXICAN OIL DEVELOPMENT POLICY
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Case Number:	EO-1995-00519
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UNCERTAIN OUTLOOK FOR MEXICAN OIL DEVELOPMENT POLICY

- 1. Mexico has unquestionably discovered large new petroleum resources near the Gulf of Mexico, which give Mexico reserves at least as large as those those of Venezuela, and possibly much larger. The discovery occurred last year, but the Mexican government kept its size a closely guarded secret while it was formulating its petroleum policy. Pemex, the state-owned oil monopoly, pushed rapidly to develop the new fields and began to export oil to the United States this September. Pemex had planned to continue rapid development of the fields. Although information on the size of the discoveries would probably have leaked out eventually, President Echeverria apparently hoped to delay the domestic political battle this information would occasion until the fields were more fully developed and a consensus had been reached within the government on future petroleum policy.
- 2. Unfortunately, information on the size of the deposits has appeared in the US press. This has precipitated a public debate over Mexico's oil export policy, with leftist elements taking predictable stances. Because of Mexican sensitivities to US pressure or the appearance of pressure, the leak has been particularly damaging to those in Mexico that favor rapid boosts in exports. President Echeverria reportedly was incensed at having this information prematurely disclosed and at being scooped by the US announcement.
- 3. Mexico

 Old have an export potential of as much as 100,000 b/d by yearend. In

 September, Mexico began exporting oil to three US firms at a rate of about 35,000

 b/d. Pemex has also approached several other US firms and several Latin American

 countries. Earlier this month it made arrangements with the USSR to ship

 450,000-500,000 barrels to Cuba. Officials of Pemex have stressed that the US

 sale was a short-term deal based on financial considerations and did not necessarily

 imply that Mexico intended to become a large-scale exporter of crude oil.
- 4. A decision has not yet been made on the level of future Mexican oil exports. While many Mexicans will welcome the impetus to economic development that could come from maximum exploitation of the country's newly found oil wealth, such exploitation is not assured. There are powerful elements in the ruling Institutional Revolutionary Party (PRI) that would oppose rapid expansion of output and exports, arguing that the oil must be conserved for the use of future

16 October 1974





APPROVED FOR RELEASE

- 5. Nationalist and conservationist views would receive strong support from Mexicans generally. In the past, such views have had strong influence on resource development policies. Mexico has long restricted output of many minerals to the levels required to meet domestic demand. Mexico in 1965 refused to take advantage of exceptionally high world sulfur prices and limited exports and future output.
- 6. Mexico's hesitation is not necessarily influenced by a desire to make common cause with OPEC. In the past, officials of PEMEX have expressed the view that the organization is too driven by Arab political interests and that membership could restrict Mexico's production flexibility. Some Mexican officials had, however, advocated joining OPEC in order to influence that organization's attitudes, goals, and intentions. Subsequent to US press announcements, Flores De La Pena, Secretary of National Patrimony, announced that Mexico will seek observer status in OPEC. We do not believe that Mexico would participate in any scheme aimed at breaking up OPEC or causing a sharp reduction of oil prices. On the contrary, Mexico will have a strong interest in maintaining high oil orices.
- 7. Petroleum policy has been the subject of strong debate among Echeverria's closest advisers, two of whom are also leading contenders to succeed him as president. The Secretary of Government, Moya Palencia, is considered friendly to the United States, but he takes a very nationalistic attitude toward oil exports. Moya feels Mexico should move very cautiously, perhaps exporting a modest quantity of refined products, while taking care to avoid rapidly depleting the new deposits for short-term financial advantages.
- 8. Taking the opposite view is Finance Minister Lopez Portillo, who advocates that Mexico become a major oil exporter. Lopez Portillo is convinced that large oil revenues would have a beneficial impact on Mexican economic development. Also, he has repeatedly expressed concern about the impact of high oil prices on developing countries and believes that the United States should take the initiative to resolve the oil crises.





- 9. The decision on exports ultimately will reflect what Mexico perceives to be its own best interests. Pressing economic problems will almost certainty result in some exports of oil, preferably, from the Mexican view, of refined products. Besides a mounting foreign trade deficit, Mexico is faced with one of the world's fastest growing populations. The economy requires large capital inflows in order to maintain the 8% real annual growth rate necessary to provide the 600,000 new jobs required annually. To feed the population, the agricultural sector also requires large amounts of capital. Conversely, inflation has become a major political issue in Mexico, and President Echeverria is concerned that petroleum development may aggravate inflationary pressures.
- 10. President Echeverria would not and politically could not boost exports to such an extent as to endanger future domestic energy supplies. He has already expressed concern about future supplies and may want to tie oil exports to the transfer of advanced energy technologies.

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The Latin American Connection

June 1975

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NATIONAL SECUPTY INFORMATION
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Exempt from general declassification schedu of E. O. 11652, exempt on category: § 58 (1) Fr. and (3) Automa cally declassified on: Day impossible to Determine 1.5(c)(d) 1.6(d)(1)(6)



June 17, 1975

The Latin American Connection

Summary

During the past few years, governments in Latin America and the Caribbean increased their efforts to control the production and illicit flow of narcotics. In many countries some progress has been made. At the least, governments have been made aware and concerned, mainly through the efforts of the US, that their countries play significant roles in the drug abuse problem in the US. Still, the production and smuggling of heroin and cocaine from the area continues to flourish. There are no accurate statistics available, but the Latin American connection almost certainly accounts for the largest amount of illicit increoties now entering the US.

The key frouble spots in attempting to halt the illicit drug flow into the US from Latin America presently are Mexico, Colombia, Ecuador, Peru, and Bolivia. Mexico is the major source of heroin. Colombia and Ecuador are the key cocaine processing and trafficking countries. Peru and Bolivia are the world's largest producers of coca, the plant from which cocaine is derived. Leaders of these governments and others in the region have publicly announced their government's support for the fight against illicit drug production and trafficking, but they face an uphill struggle in dealing with the problem.

The high level of narcotics activity stems from a variety of factors, many of which are beyond the total control of authorities. Most countries lack resources and equipment, are unsophisticated in their law enforcement, and are plagued by corruption.

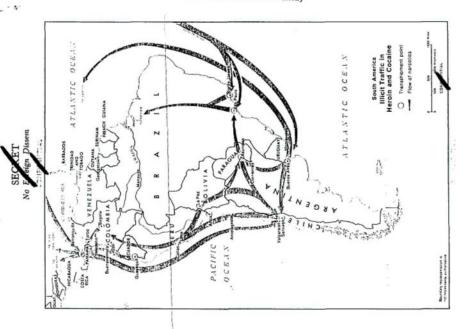
Eventually, progress will probably be realized in the more advanced and politically sophisticated countries. Leaders of Mexico, Brazil, Venezuela, and Argenina are intent on taking further steps to control the situation. Their sense of urgency will probably increase as drug abuse spreads among their own populations.

Progress in other countries will vary widely. Traffickers will continue to shift their operations to those countries where law enforcement and government resources are weakest.

Stemming the flow of heroin is a more likely possibility in the longer term since it is recognized as the most harmful narcotic, and growing the opium poppy plant is illegal in all Latin American countries. Cocaine traffic will be more difficult to deter since the coca leaf has been used by Indians in the high plains of the Andes for centuries.

Even should inroads be made on the many problems, controlling the flow of narcotics into the US will be a slow and difficult process as long as demand remains close to present levels and trafficking in narcotics remains so extraordinarily profitable.





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Scope of the Problem

Huge quantities of heroin, cocaine, and marijuana are produced and processed in Latin American and Caribbean countries and then smuggled into the US. The area almost certainly is the major source of illicit narceties now entering the US. Drug traffickers in the area have increased their operations in the past few years mainly in response to three developments: tighter enforcement controls on heroin trafficking in Western Europe; the 1971 ban on opium production in Turkey; and a rise in the popularity of cocaine in the US.

Mexico, for example, has supplanted Turkey as the major source of the heroin consumed in the US. Roughly 60 to 70 percent of the heroin seized in the US in the last year was either produced in or transhipped through Mexico. The European - Latin American connection is used to exchange South American occaine for heroin refined in Europe, though apparently traffic has lessened in recent years because of the stricter measures in Europe. Opium poppy fields have also been found in Ecuador, Peru, and Colombia, but they apparently are not widespread nor are these countries large producers of heroin.

The trafficking of cocaine from South America has increased dramatically to meet the rising demand in the US. Virtually all of the cocaine that enters the US originates in Bolivia, Peru, Colombia, or Ecuador, the countries that make up the coca leaf growing and processing region of South America. US seizures of cocaine—almost all of it originating in those countries—have increased 700 percent since 1969.

Marijuana and its derivatives, coming mainly from Mexico, Jamaica, and Colombia but prevalent in many other countries, are smuggled in huge quantities throughout the hemisphere.

Many governments in Latin America and the Caribbean have made some headway in fighting the problem. At the least, they are aware and concerned that their countries are major sources of illicit drugs entering the US. In some cases, they have formed new narcotics police units, launched large eradication and interdiction campaigns with some success, and toushened drug laws. Most of these moves can be attributed to US influence.

With continued US prodding
the caliber of performance by the Latin governments is likely over the long
run, but progress will not come easily. Several factors pose problems:

- -A long tradition of smuggling
- -Corruption among government officials and law enforcement agencies







- -Long, unpatrolled, and busy borders and vast reaches of inaccessible land
- -Lack of resources, equipment, and trained personnel
- -Unsophisticated and frequently uncoordinated enforcement efforts
- -Entrenched and well-financed criminal elements
- -Weak judicial systems and inadequate extradition laws
- -Poor coordination among governments in the region

Smuggling is endemic throughout Latin America. Enormous quantities of contraband goods-whiskey, cigarettes, TV sets, guns, and precious gems-are easily transported from one country to another. Sometimes such items move across three or more borders before they reach their destination. Under these circumstances, illicit drug trafficking is attractive and relatively easy. Because smuggling and contraband are fairly commonplace, it is difficult to arouse the public and the authorities against such trafficking when it involves drugs.

Corruption is widespread. In many countries it is almost a way of life; without payoffs and bribes many of the everyday government functions, from issuing auto permits to export licenses, could not be accomplished. Profits from drug trafficking are so great that it is worthwhile to bribe low-ranking police and government officials to look the other way. Often the very officials who are responsible for suppressing smuggling are themselves deeply involved. Influential families and community leaders in many countries also participate.

The geography of many Latin American countries is ideal for drug production and smuggling operations. The long borders, difficult terrain, rivers, hidden bays and inlets, and myriad airstrips enable the narcotics trafficker to choose among routes and methods.

Most governments do not have enough equipment, money, and trained personnel to cope with the problem.

Law enforcement against narcotics violators is weak in many countries. Police forces are generally inexperienced in drug matters and most governments do not have a central agency for handling drug violations. Rivalries





and jealousies among the various agencies dealing with narcotics hinder progress. Coordination and exchange of intelligence is many times sorely lacking.

Well-entrenched, well-organized, and well-financed criminals run the international trafficking networks. In many areas they operate with near impunity. They have shown considerable flexibility in shifting their operations to countries where law enforcement is weakest.

Judicial systems in many countries are weak and many times slow to act on narcotics offenses. Lenient sentencing of drug dealers is common. Extradition treaties with some Latin American nations do not cover narcotics.

Regional programs, regional cooperation, and a complete and honest exchange of information among the Latin nations on narcotics matters are generally lacking. One of the few regional meetings in recent years, a conclave of representatives from six South American nations, is scheduled for this summer in Bolivia. Another, sponsored by the Brazilian Federal Police, is planned for Brasilia in the fall.

The Traffickers' Routes

Heroin from Mexico and Europe and cocaine from South America find their way into the US over a vast variety of routes. The techniques used by traffickers are limited only by their imagination. From Mexico it is relatively easy to smuggle heroin and cocaine into the US across the long and largely unpatrolled border. Route 15, the main north-south highway along the Pacific coast, is the chief artery for moving the narcotics within Mexico. A new, paved road from the tip of Baja California to the US border is also thought to be heavily used by smugglers. Trafficking reportedly is increasing from the Pacific ports of Puerto Vallarta, Mazatlan, Manzanillo, and Guaymas via ferryboat to La Paz on the tip of Baja California and via private aircraft to hidden landing strips on the peninsula.

Border towns like Tijuana, Nogales, Ensenada, Agua Prieta, and Ciudad Juarez are distribution centers for drugs awaiting movement into the US. Much heroin and cocaine moves by air from Mexico both in commercial aritiners and in small, privately owned craft that use hidden airstrips, straight stretches of roads, or paved strips along irrigation canals. About 100 US-registered aircraft have been confiscated by the Mexican government in the past few years. Most of them were found to be carrying narcotics.

In Central and South America, practically all of the major cities have served as stopping-off points for narcotics destined for the US. The main



ports of entry for European heroin are Buenos Aires, Rio de Janeiro, Sao Paulo, Montevideo, and Asuncion. Heroin smuggled into Buenos Aires, for example, may travel by river to Paraguay, where it is loaded aboard private aircraft and flown to Brazil. In Brazil it may be shipped directly to the US by sea or commercial aircraft or be diverted to Colombia. Ecuador, or Panama via Santiago, Chile. Cocaine from Peru or Bolivia is frequently funneled directly to the US through several centers: Santiago, Valparaiso, and Arica, Chile; La Paz, Bolivia; Lima and Callao, Peru; Guayaquil, Ecuador; and Cali, Bogota, Turbo, and Barranquilla, Colombia. Large amounts go through Panama, Central America, and Mexico. Large shipments go by sea or air; smaller quantities are carried by couriers, many of them Colombian, who account for the greatest part of the traffic.

Many islands of the Caribbean also play important roles in the illicit traffic. Aruba and Curacao, in the Netherlands Antilles off the coast of Venezuela, are active transshipment points for European heroin, much of it originating in the Dutch ports of Rotterdam and Amsterdam. The islands may also be a way station for South American cocaine on its way to Miami and New York.

The Trouble Spots

Mexico: Despite the good efforts of Mexico and the US, the narcotics problem has vorsened in the last few years: Mexican heroin has largely filled the void left in the US market by the reduction of European heroin, the transit traffic in cocaine has increased considerably, and marijuana continues to cross the border in multi-ton lots.

the Mexicans to carry the war to the remote, clandestine opium poppy and marijuan fields, which they apparently have been doing with a vengeance in the past several weeks. Mexican-supplied statistics, which are largely unverifiable, show that the opium poppy destruction campaign has been extraordinarily successful this year. It is too early to tell if this success will result in a significant reduction in the production of heroin in Mexico and an accompanying drop in the illicit traffic into the US, since cultivation may be expanding to compensate for the fields being destroyed.

Opium poppies are illegally grown in thousands of clandestine fields in at least 10 of the 31 states. Most of them are located in the mountains and



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hills of the western states of Sinaloa, Durango, and Chihuahua.

Last spring and fall turned up nearly 1,500 opium poppy fields in an 750-square-mile area in this region, and many others almost certainly exist. Another large growing area is found in the southwestern states of Guerrero, Michoacan and Oaxaca. In many areas, depending on weather and altitude, two crops are harvested a year—one in early spring and one in September or October.

Heroin-producing laboratories have been identified in 13 states. A large concentration of them is believed to be located in and around Culiacan, Sinaloa—the heroin center of Mexico. Although big labs have been seized, the more common type is an individual enterprise, mobile and simple in operation, producing a few kilograms per batch of opium. They require little space—often a kitchen or a home suffices—and they can be hidden in the mountains or in cities themselves. Cocaine is not grown or processed in Mexico but passes through it in abundant quantities.

Hundreds of networks and gangs are involved, as are hundreds of individuals, many of them American tourists seeking to make a quick but risky profit. As of February 1975, there were 420 US citizens languishing in Mexican jails on narcotics charges. Some traffickers use narcotics as barter for guns from American buyers.



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There is no limit on the ways that narcotics can be smuggled into the Urom Mexico. Entry is by land, sea, or air-no single method appears to be preferred over another. Smuggling by air is substantial: in May 1974, US narcotics agents, monitoring radar near Del Rio, Texas, discovered about one illegal crossing by air per hour within a 100-mile radius of Del Rio. The locale is not the most active crossing area in Texas.

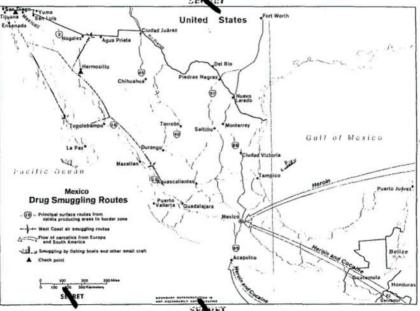
Some bizarre methods have been used. One major trafficking network in northern Sonora last year was said to be packaging crude opium and morphine in plastic bags and shoving them down the throats of cattle. The animals were then shipped to a border town, where they were slaughtered, and the narcotics removed and processed there into heroin. Crisis center workers on the US side of the border say that a favorite, but dangerous, method of smuggling is to swallow a balloon containing about two grams of heroin and pass it through the body. People also have been known to shoot arrows, to which an ounce or less of heroin is attached, across narrow portions of the Rio Grande.

A Family Affair

Trafficking in Mexico, as in most of Latin America, is many times carried out by gangs of influential families.

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Coping With The Problem

Although high-level Mexican officials are committed to attacking the issue, government agencies are alone unable to cope with the problem. The Federal Judicial Police, charged with enforcing narcotic laws under the guidance and control of the attorney general, number only about 340 and they must enforce all federal laws. They are ill-trained in narcotics, without long-term career status, woefully underpaid, and susceptible to bribery. Moves and plans are afoot to improve the quality of the force-a training academy was established last July, and the attorney general plans to increase manpower and raise salaries-but it will probably be a couple of years or more before improvements are evident.

The army, which for many years has sent thousands of troops into the countryside to destroy plantings of opium poppies and marijuana, remains too ill-equipped, overworked, and poorly funded to be expected to defeat the problem. The army's main role of maintaining stability in the rural areas detracts somewhat from its anti-narcotics efforts. Drug campaigns sometimes complicate the security problem by arousing the opposition of campesinos whose crops are destroyed.

The army operates its narcotics campaign in two ways: it provides manpower for seasonal eradication efforts when directed by the attorney

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general, and it runs its own separate crop destruction program in the military sectors where the poppies and marijuana are grown.

Despite all the problems, the army manages to destroy large quantities of opium poppies and marijuana—if the statistics it provides the US embassy are anywhere near accurate. For example, the total area of poppy fields reported destroyed in the first four months of this year has already surpassed by a wide margin the total reported destroyed during all of 1974. According to the statistics, nearly 33 million square meters were destroyed through April; the total for all of 1974 was about 22.5 million square meters. The total number of poppy fields reported destroyed in the first four months of 1975 is 8.011 compared to 9, 825 in all of 1974.

The spring eradication campaign being waged by the army and police in the states of Sinaloa, Durango, and Chihuahua began in February and ended in April. The campaign accounted for a large part of this year's increased destruction totals—about one third of the area and about one half of the fields, according to the Mexican-supplied figures. The goal of destroying 5,000 acres of opium poppy fields in Sinaloa, Durango, and Chihuahua fell short by about 1,500 acres, but the amount is impressive nonetheless.

On the surface, this year's destruction looks significant, but it is not certain whether it will make a large dent in Mexico's opium and heroin production and thus result in a reduced flow into the US. This is mainly because it is not known how big a crop of opium poppies is really grown in Mexico. Other areas besides the Sinaloa-Durango-Chihuahua and the Guerrero-Michoacan-Oaxaca areas may be prolific producers. Growers may be taking more care to make their fields inaccessible to destruction teams. The continued use of technical aids, however, may eventually help determine the extent of poppy cultivation. This, plus monitoring of the presence of Mexican heroin in the US, will probably make it easier to assess the effects of the Mexican eradication efforts.

Other Measures

Along with stepped-up crop destruction and enforcement efforts, the Mexicans have taken other measures. Chief among them is a newly revised drug law that gives stiffer penalties to traffickers but lighter sentences to young, first-time drug users. The minimum sentence for trafficking has been increased from three years to five years and three months, making a jail term mandatory. Under Mexican law persons sentenced to less than five years can be released on bail. Persons caught growing opium poppies, producing heroin, or financing those who do so will be subject to the same penalty as traffickers.

1.5(c)(d) 1.6(d)(1)(6)

Efforts have been made in recent months to rid the police and judicial symmetry of corruption, but graft is so prevalent at state and local levels that when one corrupt official is removed another one is likely to take his place. The head of the most important trafficking organization in Ciudad Juarez, Chihuahua, for example, has had to lie low for the past several months because his "protectors" in the local government and police were fired by a newly elected governor. Other groups are maneuvering for control over the lucrative Ciudad Juarez drug business and are building their own coterie of protectors. One of them allegedly is the new governor's brother. According to a knowledgeable source, the former drug carr will make a comeback and assume full control in the area after the dust settles.

Federal and state judicial police in the states of Sonora and Baja. California-have-reportedly-been-operating-very-effectively against small; independent traffickers because they compete with the large, organized gangs that pay the police for protection. Wide publicity is given to such arrests to verify the effectiveness of the war on narcotics traffickers.

Prospects

Mexican officials are committed to stemming the flow of drugs from their country to the US.

progress will eventually be evident. The vigorous and apparently extensive destruction of drug crops in the field, if done effectively and repeatedly, cannot help but make a mark. The use of herbicides to destroy the crops is being reconsidered by the government after being rejected some time ago for environmental reasons. If adopted, this method will probably be helpful.

Still, advances will be subject to pitfalls. Corruption will remain the single most inhibiting factor despite the government's efforts to combat it. Rooting out the graft poses a dilemma. Exposing the corrupt officials is politically embarrassing in some cases and dangerous to enforcement officials in others.

Mexican officials will remain sensitive to outside efforts to deal with the problem.

The growers and traffickers may in time feel the pressure of effective countermeasures, but they have proved to be a resourceful lot. Putting major traffickers out of business will be a difficult task. Mexico will remain a convenient country to operate in for those involved in narcotics and there is no overwhelming reason why they should not attempt to increase their activities.



Colombia

Colombia plays a major role in the international narcotics smuggling piurue. As the world's largest producer of refined cocaine, it is the key jumping off point for cocaine shipments to the US. The influx of cocaine is increasing yearly, as is obvious from the following statistics on cocaine seizures and arrests by the Drug Enforcement Administration in the US. Many of the seizures are directly attributable to Colombian sources.

Cocaine Seized (Pounds)

1970	1971	1972	1973	1974
 305	787	974	1,125	1,455
		Cocaine-relate	d Arrests	
1970	1971	1972	1973	1974
1,008	1,284	870	1,443	1,739

Leaves from the coca bush are freely available in Bolivia and Peru and are easily converted to coca paste. Some coca leaf is also grown in parts of Colombia. Laboratories scattered throughout the country refine the product and send it on to Bogota and other cities for distribution to couriers who smuggle it into the US via Mexico, Canada, and Europe. It is also brought into the US directly by all available means of private and commercial transportation.

The "banana zone" on the north coast of Colombia near the Panamain isthmus is an active area for traffickers. Cocaine is secreted aboard banana boats leaving for the US from ports along the coast. Local authorities are unable to control the situation because of the vast financial resources of the traffickers. Private aircraft from the US airlift substantial amounts of cocaine from the north coast area. Colombian authorities are beginning to tighten controls along the coast, but traffickers in turn appear to be shifting their operations inland to escape the pressure.

The Colombian traffickers are based primarily in Medellin, Cali, and Bogota. According to Drug Enforcement Administration intelligence of-ficials, they have rapidly advanced since 1971 from almost totally unorganized groups into highly sophisticated organizations. They usually are structured along classic organized-crime family lines. Violence is commonly

used to maintain cohesion within the groups. Small amounts of cocaine are smuggled into the US by courters, or "mules," who are normally recruited while attempting to obtain visas for entry into the US. Couriers caught with narcotics are many times allowed by US courts to return home without being prosecuted. Larger shipments require middlemen; one large Colombian organization has established several legitimate import/export companies to facilitate the smuggling. Potential profits are enormous. It is estimated that a kilogram of cocaine that costs about \$300 to produce can be ultimately sold in New York for up to \$30,000.

There are several factors that make Colombia a highly desirable transshipment point.

—Its geography—makes—it—a—springboard—between North—and—South America. Much of the commercial air traffic from South America passes through Colombia en route to the US. It is a large country with a long coast line and few paved roads along the coast. Smugglers can pick from a large number of clandestine affirleds along the coast and in the mountains.

—Smuggling of goods other than drugs has been accepted and tolerated in Colombia for generations. Narcotics traffickers use the channels already established.

—A large, sophisticated criminal element with a well-established capacity to subvert enforcement efforts exists. In the last few years Colombia has become a haven for drug smugglers and individuals who finance the operations and exert political influence to protect shipments.

—Colombian narcotics enforcement agencies have shown a lack of coordination that inhibits effective action against traffickers. Ground rules on drug enforcement are ill defined.

—The judicial system is bureaucratically encrusted and inefficient. Colombian courts have a history of long delays in hearing cases. Many judges are notorious for their venality.

Colombian authorities realize their country's prominent role in the international drug traffic. They have indicated by certain actions, as well as words, that they mean to control it. President Lopez, in office less than a year, has appointed new directors for two of Colombia's three agencies responsible for drug enforcement, the Department of Administrative Security and Customs. The new directors, reputedly honest and hard-working men, have reorganized and cleaned up their departments

National Police, has recently improved its performance on drug-related

1.5(c)(d) 1.6(d)(1)(6)



matters. Drug seizures and arrests are increasing and the conviction rate for traffickers is improving. Legislation has been passed to end the role of customs judges, who are known for their corruption, in adjudicating narcotics cases.

Still, the problem seems insurmountable in the short term. There is no lack of will on the part of Colombian authorities, but the factors working against them and the rising demand for narcotics make it increasingly difficult to stem the tide.

Ecuador

Cocaine trafficking is the major narcotics problem in Ecuador. Tons of cocaine paste from Peru and Colombia are smuggled into Ecuador and huge amounts are converted into cocaine in the many clandestine laboratories located in coastal areas and in the Andean highlands. Large amounts of Peruvian cocaine paste also pass through Ecuador into Colombia for processing. Ecuadorean-processed cocaine is moved secretly into Colombia, Mexico and eventually into the US.

The courier system is the preferred channel, but considerable amounts go out by sea and air, concealed within legitimate cargo, directly to the US. The center of the illicit traffic in Guayaquil, Ecuador's largest city and one of the most important ports on the Pacific coast of South America.

Ecuador has for decades been a center of organized contraband trade. The system is so entrenched that it is the exceptional member of the police or customs service who is not in some way receiving payment from a smuggler. The borders with Colombia and Peru are poorly patrolled, so that in some cases ingenuity rather than corruption is all that is needed to move contraband. Ecuadorean drug officials have been slow to get together with their counterparts in Peru and Colombia to discuss border controls.

Over the past few years, opium poppies have been reported growing in Ecuador's Andean highlands. Estimates of the amount of heroin processed run from 25 to 125 kilograms a month—but authorities have been unable to find significant poppy plots or to purchase opium or heroin clandestinely. Authorities moreover list no heroin setzures for the past two years.

Ecuador was initially slow to move on the narcotics problem, preferring to clamp down on the small-time peddler rather than the international trafficker. In recent months, however, the government has started to take countermeasures and has increased its cooperation with the US. The narcotics law was amended to form an interministerial committee for drug control and to enhance enforcement efforts.



Not all those apprehended remain on the sidelines for long. One of the most important traffickers in South America, Francisco Adum Adum, has been "in custody" awaiting trial for over a year.

Ecuador, like most other countries in Latin America, is plagued by narcotics-related corruption. Some government and police officials have reportedly used their influence to release traffickets from prison, have accepted bribes to free them, or have blackmailed them for their freedom.

Though police are beginning to improve, it will probably be some time before they become truly effective against the drug traffickers. Poor planning, inadequate use of personnel, and a lack of effective controls at the borders severely hinder their efforts. Even with organizational improvements and a change in enforcement priorities, narcotics production and trafficking are likely to continue and possibly increase given the existing corruption, organizational deficiencies, availability of the raw product, and the strength of the drug networks.

Penn

Peru is possibly the world's largest supplier of coca leaf that finds its way into the illicit drug market as cocaine. The US embassy estimates that 70 percent or more of the world's coca leaf supply comes from Peru. The crop is grown legally, under government supervision and exported to the US and Europe. The foreign currency earnings are not substantial. For example, in 1972, 522,000 pounds were exported for 5623,000.

A Peruvian biological researcher reports that of the some 20 million dilograms of leaves produced annually, only one fifth of them can be counted on to be chewed by the Andean campesinos or used for other legal 1.5(c)(d) 1.5(d)(1)(8)

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Photocopy from Gerald R. Ford Library





purposes. The rest, some 16 million kilograms, fairly pours into the illegal market each year. Substantial quantities of cocaine can be made from this: 1,000 kilograms of average strength coca leaves will reduce to about 10 kilograms of coca paste, which in turn is reducible to 4 kilograms of cocaine.

While the first step in producing cocaine may mainly involve small "mom and pop" backyard operations in the mountains, there are good indications that large-scale rings carry out the subsequent steps. Traffickers with international connections then move the cocaine. Traditionally, the traffickers in Peru have shipped to Mexico and from there overland to the US. Recently, violators have been caught attempting to re-route cocaine through Europe to the US and through Europe to Canada to the US.

 Opium-production does not amount to much in Peru. Small amounts are grown in the Andean highlands and possibly in the northern border area, primarily for medicinal use by the local population. The situation presently does not lend itself to exploitation by drug traffickers.

The major roadblocks to progress on the narcotics problem in Peru are the attitudes of private interests who have profited from coca farming and of the government, which does not view coca as a problem affecting the Peruvian people. Most officials in fact regard drug trafficking as an American problem. Peruvian youth do not abuse narcotics in any substantial quantity. The local Indian custom of chewing coca leaves extends back to an epoch before recorded Peruvian history. While this custom was recently labelled "anti-revolutionary," the government does not appear to be actively seeking a reduction in coca cultivation. Production may in fact be increasing.

The Peruvians do not have a national policy on the control of coca products and commerce. The problem is worsened by a notorious lack of cooperation and coordination among the various agencies and ministries involved in coca policy. Enforcement suffers from a severe lack of funds, equipment, and experienced narcotics supervisory officials in the Peruvian Investigations Police, a detective force with national jurisdiction. Most of the illegal activity takes place in remote, nearly inaccessible areas, making control difficult for the authorities. A few police officers and other government officials have been caught protecting violators or have been involved in outright trafficking.

The problem is no less serious within the courts. Existing drug laws are adouate, but the courts have been generally lenient. Cocaine traffickers have traditionally gotten off with only limited fines and jail terms.

Government officials have discussed the possibilities of substituting other crops for coca on occasion, but the present administration generally



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seems apathetic toward the idea. Crop substitution seems far in the future.
The plight of the Indians and their dependence on chewing the leaf present
political, physical, and economic problems that will not be solved quickly.

Peru will continue to be a major supplier of coca leaves for the illicit market unless enforcement capabilities improve and government attitudes and methods change.

Bolivia

The problem in Bolivia is similar to that in Peru—the transformation of coca into cocaine and its subsequent smuggling. There are no reliable figures on the amount of illegal cocaine that is produced in or smuggled out of Bothia, but it ranks close to Peru in that respect. Most Bolivian cocaine ends up, of course, in the US.

Coca leaf cultivation, selling, transportation, and chewing are legal. In receiver years, increases in production have been noted, but evidence suggests that chewing the leaf is declining. The difference between local production and chewing is doubtless being used to manufacture cocaine. Cocaine in various stages of processing easily flows over Bolivia's borders to Peru, Chile, Argentina, Paraguay, and Brazil. Numerous cocaine refineries, most of them unsophisticated and makeshift, are located mainly in rural areas. Some cocaine may be exchanged for European heroin that is then sent to the US. Heroin production and processing in Bolivia are not extensive.

Enforcement is hindered by budgetary restraints and apparent unwillingness by the authorities to arrest major traffickers.

Incks a
broad political base and because of this is reluctant to execute policies that
could generate public discontent. The narcotics section of the National
Police is inexperienced and short on equipment. The judicial system works
very slowly. Many individuals arrested on drug violations are able to buy
their way out of the charge. Some high-ranking government officials are
suspected of being involved in trafficking.

Despite the problems, the Bolivian government is cooperating with the US, and is apparently willing to take more aggressive action. New drug laws are being implemented, a meeting of drug officials from neighboring countries is planned for this summer, and crop substitution programs are being considered to cope with the situation.

Even so, efforts to prevent the seepage of coca leaf to the illicit market will be difficult. Thousands of farmers and Indians are culturally and financially dependent on coca. The size of the country, its rugged landscape, its extensive land borders with its neighbors, its primitive communications system, and its limited resources, both human and financial, further complicate efforts to defeat the problem.



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MEXICO: MEXICO IS GOING THROUGH ANOTHER PERIODIC SPURT OF URBAN TERRORIST VIOLENCE FOCUSED ON THE CAPITAL. ON AUGUST 22 THO NAVAL GUARDS AND A POLICEMAN WERE SHOT TO DEATH DURING A FLAG-LOWERING CEREMONY. EARLIER LAST WEEK GUNNAN BURST INTO A CAFT IN MEXICO CITY AND KILLED THREE UNIFORMED POLICEMEN AS HELL AS THREE CIVILIANS AT ANOTHER TABLE WHO WERE APPARENTLY MISTAKEN FOR PLAIN CLOTHES AGENTS.

SO FAR THIS YEAR 21 POLICEMEN HAVE BEEN KILLED. POLICE HAVE
BLANCH MOST OF THE SLAYINGS ON THE EERD OF SEPTEMBER COMMUNIST LEAGUE.
AN URBAN EXTREMIST GROUP THAT IN THE PAST HAS BEEN RESPONSIBLE FOR
NUMEROUS BANK ROBBERIES AND KIDNAPINGS. THE TERRORISTS ARE ZEROING
IN ON POLICEMEN-PROBABLY TO GET THEIR MEAPONS. TO REVENGE DEATHS
OF FORMER MEMBERS AT THE HANDS OF POLICE, AND TO TRY TO PORCE REPRESSIVE ACTION BY THE AUTHORITIES. Y

FOLLOWING THE SHOOTINGS ON AUGUST 22 POLICE ANNOUNCED THE ARREST OF 27 HEMBERS OF THE 23RD OF SEPTEMBER GROUP AND CLAIMED THAT THE GROUP HAS BEEN VIRTUALLY IMMOBILIZED. PAST ROUND-UPS OF LARGE

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APPROVED FOR RELEASE DATE: JUN 2000

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OUTGOING MESSAGE SECRET NO FOREIGN DISSEM COMP: INFO: FILE NUMBERS OF ITS MEMBERS HAVE FAILED TO HALT ITS ACTIVITIES?

HOWEVER, AND THERE IS LITTLE REASON TO BELIEVE THAT THIS WILL NOT

BE THE CASE AGAIN-Y

SECRETARY OF GOVERNMENT HOYA PALENCIA, WHILE CONCERNED AT THE OUTBREAK OF VIOLENCE AGAINST POLICE, HAS NOTED THAT THESE TERRORIST ACTS ARE MINOR WHEN COMPARED WITH THE MUCH BROADER SECURITY THREATS THAT EXISTED THREE YEARS AGO.

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Title:	LAT: MEXICO: TERRORIST VIOLENCE	
Abstract:		
Pages:	0004	
Pub Date:	8/27/1975	
Release Date:	6/19/2000	
Keywords:	MEXICOJINSURGENT GROUPJEPRM	
Case Number:	F-1998-00158	
Copyright:	0	
Release Decision:	RJPPUB	
Classification:	U	





STAFF NOTES:

Latin American Trends

Secret

August 27, 1975 No. 0524/75 No Poreign Dissem/Background Use Only Controlled Dissem



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LATIN AMERICAN TRENDS

CONTENTS

August 27, 1975

Mexico: Terrorist Violence

SECRET

APPROVED FOR RELEASE DATE: JUN 2000 SECRET

Mexico: Terrorist Violence

Mexico is going through another periodic spurt of urban terrorist violence focused on the capital. On August 22 two naval guards and a policeman were shot to death during a flag-lowering ceremony. Earlier last week gunman burst into a cafe in Mexico City and killed three uniformed policemen as well as three civilians at another table who were apparently mistaken for plain clothes agents.

So far this year 21 policemen have been killed. Police have blamed most of the slayings on the 23rd of September Communist League, an urban extremist group that in the past has been responsible for numerous bank robberles and kidnapings. The terrorists are zeroing in on policemen, probably to get their weapons, to revenge deaths of former members at the hands of police, and to try to force repressive action by the authorities.

Following the shootings on August 22 police announced the arrest of 27 members of the 23rd of September group and claimed that the group has been virtually immobilized. Past round-ups of large numbers of its members have failed to halt its activities, however, and there is little reason to believe that this will not be the case again.

Secretary of Government Moya Palencia, while concerned at the outbreak of violence against police, has noted that these terrorist acts are minor when compared with the much broader security threats that existed three years ago.

August 27, 1975



Title:	(6ST PUB DATE) OPEN LETTER TO PRESIDENT FORD - CUBAN-CHILEAN THREAT
Abstract:	
Pagesi	0002
Pub Date:	1/1/1976
Release Date:	9/8/1998
Keywords:	MEXICO THREAT COMMUNIST REGIME FORD GERALD AMERICAN SECURITY OJBAN-CHILEAN EDITORIAL COMMENT
Case Number:	EO-1995-00519
Copyright:	0
Release Decision:	RIPUS
Classification:	U

THINK AND IN THE PRINCE WITH PARTIES

The open letter to President Ford from 30 U.S. Congressmen who denounced the "Cuban-Chilean" style threat to

American security was extensively published about three weeks ago in the Mexico City press. Editorial comment in general criticized this intervention by the collassus of the North in Mexican events.

It should be noted that as the letter states, while there is considerable violence, kidnapings and terrorism, an observer could conclude that Mexico is in serious straits. The conclusion in the letter that these events are taking Mexico toward the imposition of a Communist regime is simply not true. The recent growth of the Mexican population is exerting increasing significant social and economic pressures on the cities and on the rural areaa. While persistent migration toward the cities is creating insolutble problems for the existing infrastructure, the number of landless and hungry peasants is also increasing. The government, which is well aware of the potential to violence as a result of this situation, is proposing radical new laws for urban settlement and a further redistribution of irrigated land. These two measures are among the most controversial in recent Mexican political history but are unlikely to stop the violence which is currently spreading in the new productive agricultural areas. The controversy and heat of debate generated by these proposed laws suggest that the government's job to reconcile the various interests concerned will not be an easy one. The Government of Mexico views the threats to

political stability and internal security with concern. However these laws can in no way be termed as Communist inspired. The Chileans mentioned in the letter to President Ford were same, associated with President Allende of Chile and are currently living in Mexico City with the approval of the Mexican Government who granted them exile status. However in no way can they be considered advisors of President Echeverria. In summary, it should be noted that the Mexican political and economic situation still continues to be stable but the outlook over the next decade is serious and should be watched carefully by the U.S. Government

Title:	NOTE TO DCI FROM A/NIO/LA -RE WIDESPREAD LAND SEIZURES IN MEXICO
Abstract:	
Pages:	0001
Pub Date:	5/28/1976
Release Date:	9/8/1998
Keywords:	MEXICO DCI JECHEVARRIA JLAND SEIZURES JOFFICIALLY TOLERATED
Case Number:	EO-1995-00519
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

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28 May 1976

NOTE TO: DCI

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FROM: A/NIO/LA

It is true that there have been widespread land seizures
in Mexico, but there is no evidence to show that these are "officially
tolerated." This is a demographic phenomenon caused by the rapidly
increasing population. During Echevarria's tenure from 1970 through
1976, the population of Mexico increased from 14 million to
62 million -- most of them in rural areas.

While Echevarria is attempting to establish himself as a leader of the Third World, there is no evidence to show that he is Communist-inspired or advised.

A/NIO/LA

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Title:	LETTER TO THE PRESIDENT FROM GEORGE BUSH - CONCERN ABOUT ADVERTISEMENT
Abstract:	
Pagest	0002
Pub Date:	6/1/1976
Release Date:	9/8/1998
Keywords:	LETTER I PRESIDENT I BUSH GEORGE I OPEN LETTER I CONCERNI COMMUNIST REGIME I MEXICO CITY PRESS
Case Number:	E0-1995-00519
Copyright:	0
Release Decision:	RIFFUB
Classification:	U

THE DIRECTOR OF CENTRAL INTELLIGENCE WASHINGTON, D. C. 20505

Document No. #3>

June 1, 1976

The President The White House Washington, D.C. 20500

Dear Mr. President,

7

Jack Marsh called to my attention your concern about the attached advertisement which contains an open letter to you signed by several Members of Congress. The letter suggests that Mexico is in the process of having a Communist regime imposed on it.

The open letter was extensively published about four weeks ago in the Mexico City press. Editorial comment in general criticized this intervention by the colossus of the North in Mexican events.

It should be noted that as the letter states, while there is considerable violence, kidnappings and terrorism, an observer could conclude that Mexico is in serious straits. However, the conclusion in the letter that these events are taking Mexico toward the imposition of a Communist regime is simply not true.

The recent staggering growth of the Mexican population is exerting increasing significant social and economic pressures on the cities and on the rural areas. While persistent migration toward the cities is creating difficult problems for the existing infrastructure, the number of landless and hungry peasants is also increasing. The government, which is well aware of the potential to violence as a result of this situation, is proposing radical new laws for urban settlement and a further redistribution of irrigated land. These two measures are among the most controversial in recent Mexican political history but are unlikely to stop the violence which is currently spreading in the new productive agricultural areas.

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The controversy and heat of debate generated by these proposed laws suggest that the government's job to reconcile the various interests concerned will not be an easy one. The Government of Mexico views the threats to political stability and internal security with concern. However, these laws can in no way be termed as Communist inspired.

The Chileans mentioned in the letter were associated with President Allende of Chile and are currently living in Mexico City with the approval of the Mexican Government who granted them exile status. However, in no way can they be considered advisors of President Echeverria.

In summary, it should be noted that the Mexican political and economic situation still continues to be stable, but the outlook over the next decade is serious and should be watched carefully by the U.S. Government.

Respectfully,

George Bush

Enc.

Title:	LAT: MEXICO: NEW POLICE UNIT	
Abstract:		
Pages:	0002	
Pub Date:	6/16/1976	
Release Date:	6/19/2000	
Keywords:	MEXICO INSURGENT GROUP JEPRM	
Case Number:	F-1998-00158	
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Release Decision:	RIPPUB	
Classification:	U	

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Latin American Trends

STAFF NOTES

APPROVED FOR RELEASE DATE: JUN 2000

Secret

CI SNLA 76-024 No. 0704-76 June 16, 1976 SECRET

Mexico: New Police Unit

The Echeverria government, alarmed by recent killings and kidnapings by the 23rd of September Communist League, has created a new police unit with special enforcement powers to deal with terrorism.

President Echeverria's decision to set up the unit reflects his concern over the terrorism problem. The 23rd of September organization

policemen in Mexico City since the first of the year and kidnaped the Belgian ambassador's daughter.

The government is worried that the League will try to interfere with the presidential elections to be held on July 4. Its fears were reinforced last week by wall slogans, painted by a group and provising that the League would disrupt be leaved of the elections.

June 16, 1976

SECRET

Title:	NATIONAL INTELLIGENCE DAILY CABLE	
Abstract:		
Pagesi	0003	
Pub Date:	7/3/1976	
Release Date:	4/30/2001	
Keywords:	MEXICO/PRESIDENTIAL ELECTION/ 1976/PRI/PAN	
Case Number:	F-1998-00854	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	

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Top Secret 231 (Security Classification)

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Access to this document will be restricted to these approved for the following specific activities:

NATIONAL INTELLIGENCE PAILY CABLE Saturdry July 3, 1976 CI NIOC 76-156C

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DATE: APR 2001

Warning * otice

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Top Secret

TOP SECRET UMBRA NOFORN/NOCONTRACT/ORCON

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TOP SECRET UMBRA NOFORN/NOCONTRACT/URCON

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//The Mexican government's chief concerns tomorrow, presidential election day, will be to avoid an embarrassingly low voter turnout and to head off any terrorist attempts to disrupt the balloting.

//The government party's pervasive powers and proven voter appeal would assure Lopez Portillo a six-year term even if the election were contested. The only serious opposition group, the conservative National Action Party, could not agree on a candidate in time to make the ballot. Two other small parties,
Also up for election tomorrow are both houses of congress and one governor.//

//The 23rd of September Communist League has recently increased its terrorist activities and may try to interfere with the election.

Title:	TERRORIST LEADER KILLED IN MEXICO	
Abstract:		
Pages:	0002	
Pub Date:	8/17/1976	
Release Date:	4/2/2003	
Keywords:	MEXICO(PORTILLO JOSE LOPEZ	
Case Number:	F-1999-01293	
Copyrights	0	
Release Decision:	RIPPUB	
Classification:	U	

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APPROVED FOR RELEASE DATE: SEP 2001

Weekly Situation Report on International Terrorism

17 August 1976

Secret 100



NOTES

Terrorist Leader Killed in Mexico

A top leader of the 23rd of September League was killed during a terrorist attack in Mexico City on 11 August. A group of about 10 terrorists ambushed the automobile of Margarita Lopez-Portillo, the sister of President-elect Jose Lopez-Portillo, and enother car in which her bodyguards were riding. They fired muchine-gun volleys from both sides of a busy street. She was unhurt, but one guard was killed and three others wounded. One of the wounded guards shot and killed a terrorist who was running to the car.

[CONFIDENTIAL]

Title:	(EST PUB DATE) MEXICO: PRISONER EXCHANGE PROPOSAL
Abstract:	
Pagest	0001
Pub Date:	9/8/1976
Release Date:	9/8/1998
Keywords:	MEXICO IPRISONER EXCHANGE IPROPOSAL JECHEVERRIA JMEXICAN PRESIDENT JPROPOSED LEGISLATION JSERVE JAIL TIME
Case Number:	EO-1995-00519
Copyright:	0
Release Decision:	RIFPUB
Classification:	U

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MEXICO : PRISONER EXCHANGE PROPOSAL.

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(U) MEXICAN PRESIDENT ECHEVERRIA'S PROPOSED LEGISLATION TO ALLOW FOREIGNERS TO SERVE JAIL TERMS IN THEIR OWN COUNTRIES IS DESIGNED IN PART TO PUT PRESSURE ON THE US TO SPEED NEGOTIATIONS FOR A PRISONER EXCHANGE.

US OFFICIALS SOME MONTHS AGO, AND IT HAS BEEN RUMORED AMONG US PRISONERS IN MEXICO FOR SOME TIME. THE DEVELOPMENT OF THE LEG-ISLATION WAS DOUSTLESS HASTENED BY A HUNGER STRIKE BY US PRISONERS THAT BEGAN YESTERDAY.

JAILS, MOST OF THEM CHARGED WITH DRUG USE OR TRAFFICKING. THE PRISONERS CALLED THE HUNGER STRIKE TO PROTEST WHAT THEY FELT WAS A RELUCTANCE ON THE PART OF BOTH COUNTRIES TO NEGOTIATE AN EXCHANGE AGREEMENT AND TO PROTEST PRISON CONDITIONS AND MISTREATMENT BY MEXICAN PRISON AUTHORITIES AND POLICE.//

MEXICAN CONGRESS ON MONDAY, WOULD GIVE THE PRESIDENT THE POWER TO SIGN TREATIES WITH OTHER NATIONS TO ALLOW A TRANSFED OF SANCTIONS UNDER WHICH PRISONER EXCHANGES COULD BE CARRIED OUT. ALTHOUGH THE LEGISLATION IS CERTAIN TO BE PASSED BY THE CONGRESS, THE MEXICANS ARE NO DOUBT AVARE THAT MAJOR CHANGES IN US LAW NO ULD BE REGUIRED BEFORE THE MEXICAN INITIATIVE COULD BE ACCEPTED.// (CONFIDE" HOPPIN)



Title:	VIEWS OF (DEDETED) THAT MEXICO'S ECONOMIC SITUATION WILL CONTINUE TO DETER!
Abstract:	
Pagest	0007
Pub Date:	10/26/1976
Release Date:	6/18/1997
Keywords:	MEXICO ECONOMIC MEXICO ECONOMIC MEASURES
Case Number:	E0-1994-00563
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Release Decision:	RIPPUB
Classification:	U

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STATE/INR JCS/MC (DIA) CIA/NMCC SWS NSA TREAS NSC/S SDO NIO CRS D/OF

Classified by Recorded Reporting Officer. Exempt from General Declassification Schedule of E.O. 11632 Exemption Category 51 (1). (1) Impossible to Determine Oute of Automatic Declassification. FURTHER DISSEMINATION AND USE OF THIS INFORMATION SUBJECT TO

CONTROLS STATED AT BEGINNING AND END OF REPORT. THIS IS AN INFORMATION REPORT, NOT FINALLY EVALUATED INTELLIGENCE

> CITE DIST 26 OCTOBER 1976

1.3(a)(4) COUNTRY: MEXICO D01: MID-OCTOBER 1976 VIEWS OF SUBJECT: 1.3(8)(4) THAT MEXICO'S ECONOMIC SITUATION WILL CONTINUE TO DETERIORATE ACO: SOURCE: 1.3(a)(4) SUMMARY: MEXICO'S ECONOMIC SITUATION WILL

A MAJOR PROBLEM IS THE MEXICAN CONTINUE TO DETERIORATE.

PUBLIC'S LACK OF CONFIDENCE IN THE PRESENT GOVERNMENT.

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SINCE THE FLOTATION OF THE PESO,

AN AVERAGE OF US\$180 MILLION HAS LEFT THE COUNTRY EACH WEEK. Approved for Release

JUL 1995

Date .

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INFLATION IS RUNNING ABOUT ANOTHER DEVALUATION IS A POSSIBILITY 30 PERCENT AND WITHIN THE NEXT TWO TO THREE YEARS. MEXICO WOULD UNDERGO A SEVERE RECESSION IN 1977 AND 1.3(a)(4) PRESIDENT-ELECT JOSE LOPEZ-PORTILLO PROBABLY WOULD BE ABLE TO DO LITTLE TO STOP THE RECESSION/INFLATION SPIRAL. CRITICIZED PRESIDENT LUIS ECHEVERRIA'S HANDLING OF THE CURRENT SITUATION. THO ADDITIONAL MAJOR PROBLEMS MEXICO WOULD BE FACING IN THE NEXT TWO YEARS: INSUFFICIENT DOMESTIC FOOD PRODUCTION AND SHORTAGE OF WATER IN MAJOR CITIES. END SUMMARY.

1.

A BLEAK PICTURE OF MEXICO'S CURRENT

AND LONG-RANGE ECONOMIC SITUATION. A MAJOR PROBLEM IS THE MEXICAN PUBLIC'S LACK OF CONFIDENCE IN THE PRESENT GOVERNMENT. SINCE THE 31 AUGUST FLOTATION OF THE PESO, AN AVERAGE OF US\$100 MILLION COMMENT: THIS RATE WOULD HAS LEFT THE COUNTRY WEEKLY. BE NEARLY DOUBLE THE CAPITAL LOSS ESTIMATED DURING THE FIRST FIGHT MONTHS OF 1976 BUT CORRESPONDS TO OTHER INFORMATION

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ON THE TOPIC.) THIS AMOUNT WAS HIGHER DURING THE 1.3(a)(4) MID-SEPTEMBER BANK RUN WHICH WAS CAUSED BY RUMORS THAT THE GOVERNMENT INTENDED TO FREEZE BANK ACCOUNTS, BUT THE DAILY AVERAGE OF USSEE MILLION CAPITAL DUTFLOW STILL HOLDS TRUE. PEOPLE ARE CONTINUING TO TAKE THEIR MONEY OUT OF BANKS. AND ARE EITHER KEEPING IT AT HOME OR PUTTING IT INTO U.S. SINCE BANKS. THE FIRST OF THE YEAR. THE NET OUTFLOW OF U.S. DOLLARS HAS 1.3(a)(4) BEEN OVER THE US\$1.2 BILLION LOAN MEXICO WILL RECEIVE FROM COMMENT: THE THE INTERNATIONAL MONETARY FUND (IMF). US\$1.2 BILLION INF LOAN WAS REQUESTED BY PRESIDENT LUIS V E R R I A ALVAREZ TO SUPPORT THE FLOTATION OF THE 1.3(a)(4)

EXPECTATIONS

THAT MEXICO CAN PULL OUT OF THE CURRENT ECONOMIC SITUATION

ARE SLIM. INFLATION IS RUNNING ABOUT 30 PERCENT ANNUALLY.

AFTER THE DEVALUATION, MEXICO GAINED THEORETICALLY ALMOST

60 PERCENT OF THE WORTH OF THE PESO (IN TERMS OF INCREASED

COMPETITIVENESS). AT THE END OF ONE YEAR, THE NET GAIN HILL

TORO COMPANY

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BE ONLY 20 PERCENT; AT THE END OF THO YEARS (AT 30 PERCENT INFLATION), IT WILL BE MINUS 10 PERCENT; AT THE END OF THE THIRD YEAR, IT WILL BE MINUS 40 PERCENT, ETC. THUS, AT A CERTAIN POINT, THERE WILL HAVE TO BE ANOTHER DEVALUATION, JUST TO WEEP EVEN.

3. ANOTHER DEVALUATION POSSIBLY COULD OCCUR IN THE

NEXT FEW MONTHS, BUT WILL CERTAINLY HAPPEN IN THE NEXT
THREE TO FOUR YEARS IF STRONG ECONOMIC MEASURES ARE NOT
UNDERTAKEN BY PRESIDENT-ELECT JOSE L O P E 2 - P O R T 1 L L O.

HHILE

BE THE BEST THING FOR THE COUNTRY IN THE SHORT RUN.

IT WILL NOT BE UNDERTAKEN FOR A VARIETY OF REASONS. FOR ONE, IT WOULD BE POLITICALLY UNKISE FOR LOPEZ-PORTILLO TO START HIS TERM WITH SUCH A CONTROVERSIAL MEASURE AS HE WOULD LOSE THE PEOPLE'S ALREADY SEVERELY SHAKEN CONFIDENCE AND CAPITAL FLIGHT WOULD INCREASE BEYOND WHAT IT IS NOW.

4. COMMENTING ON THE REMARKS

THAT MEXICO WOULD HAVE TO LIVE THROUGH TWO YEARS OF AUSTERITY.

MEXICO COULD NOT MANAGE SUCH A

PROGRAM AS IT IS ALREADY FACING A SEVERE RECESSION IN 1977.

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FURTHER DISSEMINATION AND USE OF THIS INFORMATION SUBJECT TO CONTROLS STATED AT BEGINNING AND END OF REPORT.

MAJOR INDUSTRIES OF THE PRIVATE SECTOR IN MEXICO ARE LAYING
OFF PERSONNEL IN LARGE NUMBERS. THE MOTOR INDUSTRY IS

PARTICULARLY HARD HIT. THIS SITUATION HAS COME ABOUT BECAUSE
2F THE VICIOUS CIRCLE CREATED BY THE DEVALUATION. ALL VEHICLES
WILL HAVE TO BE INCREASED IN PRICE BECAUSE OF THE NEW PARTITY
WITH THE DOLLAR. THUS, FRWER PEOPLE WILL BE ABLE TO PURCHASE
THESE VEHICLES. FEWER SALES MEAN FEWER PROFITS. ALSO, THE
COMPANIES WILL HAVE TO SAVE MORE MONEY BECAUSE THE PESO IS
HORTH LESS WHILE LABOR COSTS HAVE INCREASED. COMPANY SAVINGS
AND LESS PROFITS AND FEWER SALES MEAN FEWER JOBS. FEWER JOBS
MEAN MORE PEOPLE OUT OF WORK WITHOUT MODIEY. THIS, IN TURN,
MEANS THAT A LARGER SEGMENT OF SOCIETY WILL NOT BE ABLE TO
AFFORD TO BUY OTHER ITEMS WHICH MEANS FEWER SALES OF OTHER

MERCHANDISE. THE GOVERNMENT WILL HAVE TO PUMP MORE MONEY INTO
THE ECONOMY FOR MORE JOBS AND SALES. MORE MONEY MEANS MORE
INFLATION. HIGHER INFLATION MEANS THE PESO IS WORTH LESS.

LOPEZ-PORTILLO WILL BE ABLE

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TO DO LITTLE TO STOP THIS RECESSION/INFLATION SPIRAL AND HIS POLICIES TO COUNTERACT THIS PROBLEM WILL PROBABLY NOT.

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COMMITTED BY ECHEVERRIA.

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THE PRESENT GOVERNMENT IS HANDLING THE SITUATION POORLY. THE MAIN CAUSE OF THE PROBLEM IS PRESIDENT ECHEVERRIA WHO REFUSES TO TAKE THE ADVICE OF HIS ECONOMIC ADVISERS AND WHO CHANGES HIS MIND ON ECONOMIC POLICIES FOR THE COUNTRY FROM DAY TO NOT FREEZING BANK DLY. ACCOUNTS OR ADOPTING POLICIES TO RESTRICT CAPITAL FLIGHT AT THE TIME OF THE PESO DEVALUATION WERE TWO MAJOR BLUNDERS

ONE OF ECHEVERRIA'S ECONOMIC ADVISERS SAID THAT IN TWO YEARS MEXICO WILL BE FACED WITH TWO ADDITIONAL PROBLEMS OF MONUMENTAL PROPORTIONS. FIRST, MEXICO WILL NOT RAISE SUFFICIENT FOOD FOR 1TS GROWING POPULATION. IT WILL THUS HAVE TO IMPORT FOOD PRODUCTS WHICH WILL INCREASE



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IMPORTS AND WORSEN THE BALANCE OF PAYMENTS PROBLEM. SECOND.

MEXICO CITY AND OTHER METROPOLITAN AREAS WILL FACE A WATER

CRISIS BECAUSE RURAL SECTOR POVERTY WILL DRIVE THE PEOPLE

TO URBAN CENTERS, PRIMARILY MEXICO CITY, THEREBY COMPOUNDING

AN ALREADY DEFICIENT WATER SUPPLY SITUATION. SUCH CONDITIONS

WILL INCREASE THE ILLEGAL IMMIGRATION OF MEXICANS INTO THE

UNITED STATES.

7.



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Title:	DISCREPANCIES BETWEEN VIEWS OF OUTGOING AND INCOMING ADMINISTRATIONS IN MEXICO
Abstract:	
Pagest	0004
Pub Date:	10/27/1976
Release Date:	6/18/1997
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Case Number:	EO-1994-00563
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Release Decision:	RTPPUB
Classification:	U

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PAGE 1 OF 4 PAGES STATE/INR JCS/MC (DIA) CIA/NMCC SWS NSA TREAS NSC/S SDO NIO CRS

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DIST 27 OCTOBER 1976

1.3(8)(4) COUNTRY MEXICO

LATE OCTOBER 1976 DOI DISCREPANCIES BETWEEN VIEWS OF OUTGOING AND SUBJECT

INCOMING ADMINISTRATIONS IN MEXICO

1.3(a)(4)

ALTHOUGH INCOMING PRESIDENT JOSE L O P PORTILLO WAS HANDPICKED BY PRESIDENT LUIS E C ALVAREZ AND THERE HAVE BEEN MANY SIGNS OF COOPERATION AND

IDENTIFICATION BETWEEN THE THO, IN RECENT WEEKS DIFFERENCES OF Approved for Release

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OPINION, PARTICULARLY WITH RESPECT TO THE HANDLING OF ECONOMIC PROBLEMS, APPEAR TO HAVE DEVELOPED BETWEEN THE THO MEN.

- 2. ASSOCIATES OF LOPEZ-PORTILLO HAVE INDICATED THAT.

 WHILE ECHEVERRIA REMAINS IN OFFICE, THE PRESIDENT-ELECT WILL

 REFRAIN FROM MAKING ANY COMMENTS WHICH COULD BE INTERPRETED

 AS CRITICAL OF THE PRESENT ADMINISTRATION. AT THE SAME TIME,

 HOWEVER, THEY ARE NOT HIDING THEIR VIEWS THAT THE ECONOMY OF

 THE COUNTRY HAS BEEN MISHANAGED BY ECHEVERRIA AND THAT THE

 CURRENT INFLATIONARY WAVE AND DRAMATIC HEAKENING OF THE

 PESO AFTER THE 31 AUGUST FLOTATION HAVE BEEN CAUSED PRIMARILY

 BY THE LOSS OF CONFIDENCE IN THE ECHEVERRIA ADMINISTRATION

 AND THE LATTER'S UNNECESSARY CATERING TO LABOR.
 - 3, THOSE CLOSE TO LOPEZ-PORTILLO FEEL THAT PRESIDENT ECHEVERRIA HAS MISHANAGED BOTH THE FLOTATION OF THE PESO AND THE SUBSEQUENT HANDLING OF THE ECONOMY. THE RESULT IS THAT NONE OF THE BENEFITS WHICH COULD HAVE BEEN EXPECTED FROM FLOTATION WERE REALIZED AND THAT THE UNCERTAINTIES REGARDING THE ECONOMY ARE AS GREAT, IF NOT GREATER, THO MONTHS AFTER THE ORIGINAL FLOTATION AS THEY WERE PREVIOUSLY.

SIGNIFICANT DIFFERENCES EXIST BETHEEN THE OUTGOING



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AND INCOMING PRINCIPALS WITH RESPECT TO ATTITUDE TOWARD THE PRIVATE SECTOR. EMPHASIS ON FOREIGN POLICY, FOREIGN TRADE AND INFORMATION POLICY. GENERALLY SPEAKING, THE LOPEZ-PORTILLO CAMP HISHES TO CREATE CONDITIONS TO RESTORE INVESTOR CONFIDENCE WHILE AT THE SAME TIME REDUCING GOVERNMENT EXPENDITURES BY APPLYING ESSENTIALLY COMMERCIAL CRITERIA TO FOREIGN POLICY AND FOREIGN TRADE. HITH RESPECT TO INFORMATION POLICY, IT IS INTENDED TO CENTRALIZE INFORMATION GUIDANCE AND TO UTILIZE IT PRIMARILY FOR THE PROMOTION OF THE ECONOMIC OBJECTIVES OF THE GOVERNMENT.

5. LOPEZ-PORTILLO IS DETERMINED TO WITHHOLD BOTH POLICY
STATEMENTS AND THE ANNOUNCEMENT OF APPOINTMENTS IN THE NEW
ADMINISTRATION UNTIL 30 NOVEMBER IN ORDER TO AVOID DEROGATORY
REFLECTIONS ON ECHEVERIA. HE FEELS THAT THE PROPOSED
APPOINTMENT OF CERTAIN INDIVIDUALS OR THE FAILURE TO APPOINT
OTHERS WOULD BE ANALYZED AS REFLECTING DIFFERENCES IN POINTS
OF VIEW. WHILE SUCH DIFFERENCES EXIST AND WILL BECOME
OBVIOUS, HE DOES NOT WANT THEM PUBLICIZED AND DISCUSSED
WHILE ECHEVERRIA IS STILL PRESIDENT.

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Title:	POLICY GUIDELINES FOR THE INCOMING ADMINISTRATION OF PRESIDENT- ELECT JOSE LOPEZ
Abstract:	1
Pagest	0008
Pub Date:	10/27/1976
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Case Number:	ED-1994-00563
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Classification:	U

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ER DISSEMINATION AND USE OF THIS INFORMATION SUBJECT TO CONTROLS STATED AT BEGINNING AND END OF REPORT.

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NLF MR Case No. 95-3

Document No.

DIST 27 OCTOBER 1976

IN DAL347

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OF UNITRY MEXICO

SUMMARY;

LATE OCTOBER 1976

POLICY GUIDELINES FOR THE INCOMING ADMINISTRATION

OF PRESIDENT-ELECT JOSE LOPEZ-PORTICLO

SOURCE

PRESIDENT-ELECT

JOSE LOPEZ-PORTILLO HAS OUTLINED HIS VIEWS ON A NUMBER OF POLICIES WHICH HE EXPECTS TO IMPLEMENT ON TAKING OFFICE. HE RECOGNIZES THE UNSATISFACTORY STATE OF THE REXICAN ECONOMY AND REGARDS THE UPCOKING PERIOD AS & CRITICAL ONE DURING

FURTHER DISSEMINATION AND USE OF THIS INFORMATION SUBJECT TO CONTROLS STATED AT BEGINNING AND END OF REPORT.

MHICH HE WILL HAVE TO REESTABLISH PRIVATE-SECTOR CONFIDENCE IN THE GOVERNMENT. HE ALSO BELIEVES THAT THERE CAN BE NO ENDED TO RECOVERY HITHOUT RESTORING LABOR DISCIPLINE AND FRODUCTIVITY AND WILL TAKE A HARD-LINE STAND ON LABOR POLICIES TO ACHIEVE THIS. IN LIKE FASHIGN, THE PROBLEMS OF UNEMPLOYMENT AND UNDEREMPLOYMENT WILL BE TACKLED. FOREIGN POLICY WILL BE RESORTENTED TOWARD THE UNITED STATES AND LATIN AMERICA. TIES-WITH THE THIRD WORLD WILL BE MAINTAINED, BUT THE STRESS WILL - 37 OF MEXICAN SELF-INTEREST. LOPEZ-PORTILLO INTENDS TO STAGNATHEN MEXICAN OFFICIAL REPRESENTATION IN THE U.S. . BUT WILL MET ALTER OR SURRENDER THE POSITION OF INDEPENDENCE - ICH MEXICO HAS DEVELOPED TOWARD ALL COUNTRIES. INCLUDING THE U.S. THE FORMATION OF A SECRETARIAT OF INFORMATION IS BEING CONSIDERED, IN THIS CONNECTION, A SMALL COMMITTEE IS SHALFFLOOD THE WAYS AND MEANS TO TOME DOWN THE PROVOCATIVE WEADLINE POLICY OF MOST MEXICAN NEWSPAPERS. IT HAS BEEN EN AN AS IZED, HOWEVER, THAT NO INTERPERENCE WITH THE FREEDOM OF THE PRESS IS INTENDED, END SUMMARY.

MHILE PRESIDENT-ELECT JOSE L O'PEE'+ P REFRAIN FROM MAKING ANY COMMENTS ABOUT HIS POLICIES



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FURTHER DISSEMINATION AND USE OF THIS INFORMATION SUBJECT TO CONTROLS STATED AT BEGINNING AND END OF REPORT.

DING MG HIS INAUGURATION ON 1 DECEMBER 1976

LOPE E- PORT ILLO HAS OUTLINED HIS VIEWS MINER OF POLICY ISSUES WITH THE EXPECTATION THAT HE WILL MOV TOWARD THE IR INPLEMENTATION IMPEDIATELY UPON TAKING OFFICE

- LORSE PORTILLO RECOGNIZES BOTH THE UNSATISFACTORY STATE OF THE MEXICAN ECONOMY AND THE VIRTUAL IMPOSSIBILITY OF AMY DRASTIC IMPROVEMENTS WITHIN THE SHORT TERM, BY WHICH WE WEARS A PERIOD OF SIX MOUTHS TO TWO YEARS FOLLOWING HIS THAUGURATION . ALTHOUGH OF TIMESTIC ABOUT MEXICO'S LONGER. TEAM ECONOMIC POTENTIAL, HE REGARDS THE UPCOMING PERIOD AS CALTICAL ONE DURING WHICH HE HAS TO REESTABLISH PRIVATE-SECTOR CONFIDENCE IN THE GOVERNMENT, BUT HE HUST DO SO HITHOUT TO TALL ANTACOMIEING ORGANIZED LABOR.
- LOPEZ-PORTILLO FEELS THAT PRESIDENT LUIS EVERRIA ALVAREE HAS UNNECESSARILY CURRIED HITH MAXICAN CAPOR WITH THE RESULT THAT SALARY GAINS BY LASCE HAVE EXCEEDED PRODUCTIVITY. "HE WIERS THIS AS A MAJOR DAUGE OF THE LOCAL INFLATION. LOPEE - RTILLO HOPES TO REACH ASRESMENT WITH LABOR THAT HENCEFORTH ANNUAL WAGE INCREASES MOULD SELIN THE 5 - 7 PERCENT PANCE, BUT HE



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THE TAYON WILL BE STRONG OPPOSITION TO THIS, HE INTENDS TO THE LIVE, HOWEVER, EVEN AT THE RISK OF STRIKES AND RIGTS AND VIEW FORCE, IF NECESSARY, BECAUSE OF HIS CONVICTION THAT TAKEN JAW WE WE STONGWIR RESTORERY ALTHOUT RESTORERS LARDS.

- 4. UNEXPLOYMENT AND UNDEREMPLOYMENT ARE REGARDED AS

 3.310 PROBLEMS. WHICH ARE AND WILL CONTINUE TO BE AGGRAVATED

 THAT HIGH STRUMENTS AND LACK OF ADECUATE INVESTMENT. A STUDY

 THAT HAS ADVISED LOPEZ-PORTILLO THAT ONLY ABOUT TEM PERCENT

 THE MEM MORK FORCE PER ANNUM CAN BE ACCOMMODATED WITH NEW

 1.31 IN INDUSTRY. THE STOATION IS UNACCEPTABLE AND ITS LONG
 THAT HAS LOOS BE CREATED, BUT THERE MUST BE AN INTENSI
 TOATION OF THE AGRICULTURAL SECTOR TO PROVIDE EMPLOYMENT

 THE RURAL AREAS. THE ALTERNATIVES WOULD BE INTOLERABLE

 ***25499ES ON THE CITIES AND INCREASED ILLEGAL MIGRATION TO
 - E. MEXICAN FOREIGN POLICY WILL BE REORIENTED TOWARD THE ... LYITED STATES AND TOWARD LATIN AMERICA. LOPEE-PORTILLO HAS. TAYD THEY HIS THREE MOST IMPORTANT AMBUSSACSRIAL APPOINTMENTS.



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FURTHER DISSEMINATION AND USE OF THIS INFORMATION SUBJECT TO

WILL BE TO THE UNITED STATES, TO GUATEMALA AND TO CUBA. THE ROWIER TWO. BECAUSE THEY ARE NEIGHBORS; CUBA. TO MAKE SURE TO NEEPS ITS HANDS OFF MEXICO.

S. WHILE NOT FORMALLY ALTERING OR RENOUNCING MEXICO'S

WINLY-FOUND STATUS WITH THIRD WORLD COUNTRIES, LOREZ-PORTILLO

WILL EMPHASIZE RELATIONS WITH THOSE COUNTRIES WHICH ARE IN A

23SITION TO MAKE A CONTRIBUTION TO MEXICAN RECOVERY.

WE INTENDS TO MAINTAIN CORDIAL RELATIONS WITH ALL, BUT

EXTENDING THE COUNTRIES OF TANZANIA, NIGERIA, ANGOLA AND VIETNAM

AS EMAMPLES, WHERE THE MAINTENANCE OF MEXICAN REPRESENTATION

REPRESENTS UNMECESSARY EXPENSE WITH NO CONCELVABLE BENEFITS
TO METICO.

THE STRESS WILL BE ON MEXICAN SELF-INTEREST.

THE IDEOLOGICAL FACTOR WILL BE REMOVED FROM FOREIGN
THE IDEOLOGICAL FACTOR WILL BE REMOVED FROM FOREIGN
TO SEE DISCONTINUED.

A RECENT CONTRACT WITH

MARGEOUS, SIGNED BY FRANSICO A L E J D LOPEZ, SECRETARY FOR

MARGEOUS, SIGNED BY FRANSICO A L E J D LOPEZ, SECRETARY FOR

MARGEOUS PATRIMONY, FOR THE PURCHASE OF FERTILIZERS AT A

TOTAL PRICE MEARLY FOUR TIMES HIGHER THAN THE PRICE MOULD.

MAYE SEEN FOR SIMILAR FERTILIZER BOUGHT FROM THE UNITED STATES,

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FURTHER DISSEMINATION AND USE OF THIS INFORMATION SUBJECT TO CONTROLS STATED AT BEGINNING AND END OF REPORT.

LAGE FOR THE SAKE OF DIVERSIFICATION AND FEELS THAT THE U.S.

12 SOTH THE BEST AND MOST LOGICAL TRADING PARTNER FOR MEXICO.

13 SOTH THE BEST AND MOST LOGICAL TRADING PARTNER FOR MEXICO.

14 LOPES-PORTILLO INTENDS TO STRENGTHEN THE MEXICAN

15 MOST A BETTER UNDERSTANDING OF THE AMERICAN REALITIES

16 TO PRINCIP MEXICAN EXPORTS IN THE UNITED STATES. JOSE

17 L L A S T E G U I. UNDERSECRETARY FOR FOREIGN RELATIONS.



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9. IN SMPHASIZING CLOSE COOPERATION WITH THE UNITED STATES.

LANGUA-PORTILLO HAS HADE IT CLEAR THAT THERE CAN SE NO TURNING

LANGUAGE THE POSITION OF INDEPENDENCE WHICH MEXICO HAS

DEVELOPED TOWARD ALL COUNTRIES. INCLUDING THE UNITED STATES.

CHARGES HAJORITY CONTROL OF INDUSTRIAL ACTIVITIES IN

SACIOD. FOREIGN INVESTMENT, WHILE ENCOURAGED, WILL NOT SE

LANGUAGE BY ALTERING THE CURRENT LEGISLATIVE FRAMEWORK.

LANGUAGE TO MEXICAN GROUND RIZES BUT, AT THE SAME TIME.

PLE SOM HILL ADHERE TO THE SAME FULES, THUS PROVIDING

THE INCOMING ADMINISTRATION IS KEENLY AWARE OF THE CONTIDENCE AND EVEN CYNICISM WITH WHICH ALL SECTORS OF PERIOD PUBLIC OPINION VIEW THE GOVERNMENT AND ITS TO AMPLICEMENTS. THIS LACK OF CONFIDENCE IS VIEWED AS INTERFERD OF THE ECONOMY. THE EXISTING THE INFORMAL FUNCTIONING OF THE ECONOMY. THE EXISTING THE INFORMATION POLICY.



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FURTHER DISSEMINATION AND USE OF THIS INFORMATION SUBJECT TO

TATEREMYS ON SPECIFIC POLICY AND IMPLEMENTATION EMANATING

THE DIFFERENT SECTORS OF THE GOVERNMENT. THE ESTABLISHMENT

A SECRETARIAT OF INFORMATION IS BEING CONSIDERED, ALONG

ITH WAYS AND MEANS TO TONE DOWN THE PROVOCATIVE HEADLINE POLICY

MOST MEXICAN NEWSPAPERS. IN THIS CONNECTION, LOPEZ-PORTILLO

MASS APPOINTED A SMALL COMMITTEE TO ANALYZE FOUR IMPORTANT

MASS AREOLINTED A SMALL COMMITTEE TO ANALYZE FOUR IMPORTANT

MASS AREOLINTED A SMALL COMMITTEE TO ANALYZE FOUR IMPORTANT

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Title:	ESTIMATED DATE. MEXICAN ECONOMIC SITUATION	
Abstract:		
Pagesi	0002	
Pub Date:	10/30/1976	
Release Date:	6/18/1997	
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Case Number:	EO-1994-00563	
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Release Decision:	RIPPUB	
Classification:	U	

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the following information concerning the economic situation in

Based on everything gleaned from Mexican and local American contacts, President Echeverria has lost the confidence not only of the business sector as such but also of virtually everyone who has savings in Mexico. It is not believed that Echeverria can restore any degree of confidence and therefore stabilization cannot become effective as long as he remains in office. The best the Mexican Government can do under the circumstances is to slow down capital flight or at least make it more expensive. There are no immediate means of improving the psychological climate, to reverse the price spiral, to stop merchants and suppliers from hoarding, or to dispel the gloom spreading over Mexico.

It is doubtful that the Government of Mexico has any planned position in case stabilization does not work. Currency exchange controls are talked about but always with the recognition of immonse difficulty of enforcement, given the long border and two-way crossings by millions of people daily. As one police official puts it: "We cannot even control illegal border crossers; how are we going to control legal travellers who carry money?" There is no doubt that exchange controls would result in immediate black market and large scale dumping of the peso. A true float of the peso, with the peso finding its oun level would be very difficult particularly with respect to keeping labor in line. In the final gradysis, some form of stabilization must work, the only alternative being a rigid dictatorship which would impose its policies by force Approved for Release JUL 1995

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as in the Soviet Bloc. We do not foresee this for Mexico within the time frame of the next several years but we do expect further deterioration and high inflation.

Economic policy in Mexico, like any other policy, is determined by the President. Officials may hake suggestions, and President Echeverris likes long discussions with all possible options put on the table, but in the final analysis, he slone determined to the stable of the stable of the stable.

Lopes-Portillo's private secretar insists in loss is not exerting any influence at this time. Those-Portillo's quoted as saving that Echeverria's suthority must not be deliuted and that he, Lopes-Portillo, does not want a piece of on action which he cannot control. On the other hand, scheverria and Lopes-Portillo have several private meetings each week, and it is difficult to inagine that there would be no give and take during those get-togethers. It cannot be estimated to what extent Echeverria may be influenced by what Lopes-Portillo says during these meetings.



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Mexico Under lose Popez-Portillo Problems and

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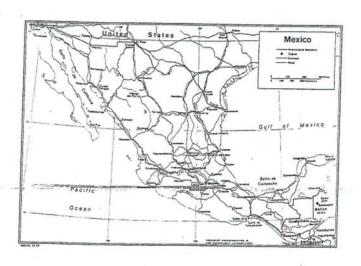
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MEXICO UNDER JOSE LOPEZ-PORTILLO: PROBLEMS AND PROSPECTS FOR US-MEXICAN RELATIONS*

PRINCIPAL FINDINGS

Jose Lopez-Portillo, when he assumed the presidency of Mexico on December 1, 1976, inherited an economy in the grip of a psychological crisis. Successive attempts at a managed float of the peso in the last days of the Echeverria administration, while bringing about an undervaluation of the currency, failed to check capital flight and, in fact, further reduced business confidence, already undermined by the antibusiness acts and attitudes of the outgoing government. The extensive last-minute land redistribution of the outgoing president added to the air of tension and uncertainty.

Fortunately for Lopez-Portillo, the Mexican presidency is a powerful decisionmaking center that operates under remarkably few institutional constraints. If he has the will, a new president could move quickly on the troublesome issues that confront him. Lopez-Portillo has given every indication that he has both the will and a program to arrest and reverse the current downward spiral. This is not to say that the road will be easy. He is faced with such basic problems as rapid population growth, high unemployment and underemployment, and low productivity in agriculture. Echeverria's populism has some momentum, and

^{*}This Estimate was written during a period of transition in the Mexican government. A follow-up Estimate is planned for mid-1977, when the policies of the Lopez-Portiilo administration will have become more fully known.





various interest groups, particularly organized labor, will at times cause problems. Some compromises are likely. However, the Mexican president has unique tools with which to cope with his problems and insure the success of his programs.

The new president, generally considered to be pro business and economically conservative, is expected to: (a) hold public and private talks to persuade businessmen that his administration understands their problems; (b) affirm the objective of maintaining exchange rate stability; (c) reemphasize that the government has no intention of establishing exchange controls; (d) take special measures to aid individual industries; (e) make use of wage and price controls to reduce the inflationary effects of devaluation; (f) announce specific programs to reduce the public sector deficit; and (g) emphasize agricultural productivity over land distribution. This program should begin to show results in 1977 and achieve substantial success by the end of 1978.

As the emphasis of Lopez-Portillo's economic policy shifts from stabilization to growth, oil will become increasingly important. While there are strong forces within the Mexican government that will resist all-out development of the country's oil reserves—which may be as much as 60 billion barrels and nearly as large as those of Kuwait—the president would clearly like to produce and export oil at something near the maximum prudent rate. We believe that the president will win most but not all of his battles with the bureaucracy and that by 1980 production and export levels will be on the order of 2.3 million barrels per day and 1.2 million barrels per day, respectively. Such rates would allow Mexico to achieve a substantial current account surplus. By the end of Lopez-Portillo's term in 1982 Mexico could be well on the way to becoming one of the world's major oil exporters.

On the political side, we believe that Lopez-Portillo can prevent Mexico's admittedly serious social problems from becoming unmanageable, but land redistribution and labor problems will be particularly difficult. The government should be able to maintain its authority and to stifle and deflect pressures through the traditional methods of cooptation, coercion, and limited reform.

With regard to the United States, Lopez-Portillo promises to be a much more cooperative neighbor than was Echeverria. It is clear, however, that the new president sees improved relations with the United States as a two-way street and hopes to maximize the economic, financial, and commercial benefits of the new relationship.





Thus, while the president's cooperative stance will extend to those areas of most concern to the United States—such as illegal immigration, narcotics, trade relations, and oil—both institutional and political factors will prevent rapid breakthroughs in most of these areas.

Illegal immigration to the United States will continue to be a problem until Mexico can offer potential emigrants a viable alternative. In narcotics matters we can expect the Lopez-Portillo government to continue cooperative enforcement efforts, but, in spite of US assistance, inefficiency, corruption, and the profit potential will continue to limit the effectiveness of enforcement programs. In trade relations Lopez-Portillo can be expected to press for special trade advantages for Mexican products in the US market



DISCUSSION

1. SETTING THE STAGE

A. Mexico and the United States

- 1. On December I, 1976, the administration of Luis Echeverria was replaced by that of Jose Lopez-Portillo y Pacheon. The Echeverria years had been a time of economic difficulties for Mexico and considerable strain for Mexicoa--US relations. The new administration inherits a number of old problems as well as some unexpected opportunities; how it faces its problems and makes use of its opportunities will impact directly and indirectly on US interests.
- Present US interest in Mexico is stronger than at any time in the recent past. The United States desires a Mexico that will be:
 - a source of increased oil supplies for the US and world markets;
 - a hospitable market for trade and investment;
 - a secure southern border;

President Jose Lopez-Portillo

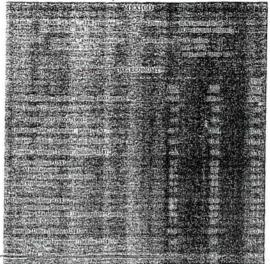
- a helpful and moderating influence in international forums:
- a cooperative partner in working out such bilateral problems as narcotics smuggling and illegal immigration; and
- a politically and economically stable nation that is well enough on top of its domestic problems to dispense with demagogic diversions.

This Estimate will examine the Mexican situation and prospects under the Lopez-Portillo Administration insofar as they have implications for US interests.

B. The Mexican Economy and Society

- 3. For most of the period since the late 1930s, Mexico has been among the more successful developing countries in terms of both political stability and economic growth. Despite the country's violent past, Mexico's presidents have been able to rule and transfer rule without threat of coup, revolution, or military pressure. Successive administrations, though far from democratic, have responded to the interests of most groups in Mexican society reasonably well. Moreover, they have maintained public order and their own authority without relying heavily on the more blatant forms of censorship and repression.
- 4. Effective political authority has allowed Mexico to follow an economic policy that has balanced growth and stability more effectively than has generally been the case in Third World countries. The results have been spectaculait, Real, growth has averaged 6.2 percent annually since 1950, inflation has generally been low by LDC standards, and diversification has progressed rapidly. During this period the mining and agriculture-based economy evolved into a semi-industrialized one. The share of manufactured goods in total exports rose from 7 percent in 1950 to 54 operation in 1974, with the border.





industries playing a large part. These achievements were the direct result of an overall strategy that included (a) maintenance of a stable exchange rate, (b) banking and financial policies conducive to the growth of private tavings and investment, and (c) public resource allocation policies favoring growth of the private industrial sector.

- 5. Nevertheless, Mexico faces serious and growing economic problems. Some of these problems have been caused or exacerbated by Echeverrie's politically motivated disregard of the three-point strategy that had served the country so well in the past; others are more basic.
- 6. Mexico's population growth rate of 3.3 percent annually is one of the world's highest and is reflected

in growing urban slums, deterioration in some public services, and—most important from our point of view—shortages of land and jobs that accelerate the illegal flow of immigrants. A few facts should be noted:

- Agriculture, with more than 40 percent of the labor force, accounts for less than 10 percent of GNP.
- Land redistribution—an issue of great ideological as well as practical importance—is nearing its physical limits, while an estimated 4 million peasants remain landless.
- The migration of peasants to such large urban centers as Mexico City, Guadalajara, and Mon-

terrey is a major factor in Mexico's 5.5 percent urban growth rate.

- The rate of unemployment and underemployment, though extremely difficult to estimate, could range as high as 40 percent.
- Income differentials between rich and poor are increasing; in 1950 the lowest decile earned almost 3 percent of total personal income and the highest earned 49 percent, while in 1970 the lowest decile earned only 2 percent compared with 51 percent for the highest.
- 7. Echeverria came to power in 1970 at a time of considerable political and social unrest. The new president was considered a political hard-liner, the man largely responsible for the Tlatelolco student massacre. Although most opponents of the government, including the students, were middle or upper class, they claimed to speak for the worker, the farmer, and the unemployed. Echeverria, in an effort to shore up his position and perhaps also for basic philosophical reasons, decided to change both his image and traditional economic policy.
- 8. During the early years of his administration, Echeverria boosted wages and sharply stepped up welfare spending and government investment. The public sector took on a larger role, and social welfare was emphasized with some adverse consequences for economic productivity. When Mexico began to be seriously affected by the world recession, government spendings was increased in an effort to sustain a rapid rate of inflation. economic activity. This expansionary fiscal policy resulted in rising prices and balance-of-payments pressures. Wage increases further eroded Mexico's competitive position. Rising current account deficits in a country already heavily dependent on external borrowing fed rumors of devaluation that encouraged capital flight. The government instituted a managed float of the peso on September 1, 1976-Mexico's first devaluation since 1954.
- 9. As was true in 1954, the government failed to make clear the rationale of the September devaluation to business, labor, or the general public. It failed to resist union demands for sharp wage increases or to scotch rumors of a coup and fears of a bank account freeze. Business confidence was thus further undermined. In response to resumed capital flight, the government made a second devaluation in October

and on November 22 suspended temporarily the sale and purchase of all foreign currencies and gold by

10. The IMF, responding to Mexican requests for assistance, put together a financial package totaling 837 million in Special Drawing Rights, contingent on Mexico's adopting certain stabilization measures. In order to tide the country over until IMF assistance could be obtained, the United States agreed to a \$600 million special currency swap in addition to the existing \$300 million swap. Thus far Mexico has drawn down \$365 million from the special swapsubsequently repaid-and \$150 million from the US Treasury and \$150 million from the Federal Reserve Bank. Mexico will be eligible to draw down the remaining \$235 million from the special swap when negotiations for IMF extended fund financing are concluded in 1977.

- 11. The devaluation and subsequent measures taken by the Echeverria administration did not produce the early improvement in the economy that was hoped for; indeed, they may have pushed business confidence to a new low. In addition to having to cope with those basic problems cited in paragraph 6. Lopez-Portillo has inherited an economy afflicted by:
 - sharply higher federal spending.
 - a record budget deficit,

 - a stagnation of foreign and domestic private Investment
 - a slowing of economic growth.
 - a large current account deficit, and
 - greatly increased foreign indebtedness.
- 12. Despite Echeverria's attention to social goals. unorganized labor and the unemployed have received few if any lasting benefits. More fundamental problems such as the population growth rate have only begun to be addressed. Nevertheless, surface social tensions are undoubtedly lower in 1976 than they were in the late 1960s. The students are largely cowed, the never-very-important terrorist and bandit movements are well under control, there is little agitation (and even less inclination on the part of

party leaders) for the "democratization" of the government party, and the press remains reasonably happy in its twilight zone between freedom and subservience.

13. In foreign affairs, Echeverria's activist effort to enlarge his—and Mexico's—prestige in the Third World led to increased friction with the United States and other developed countries. Mexican presidents in the past, although sharing their people's distrast of US motives and power, have generally tried to maintain good relations with "the Colossus of the North." Echeverria was a partial exception; while giving private assurances to the US Government, he made common cause with the Third World in his nettoric against the developed world. Mexico's votes and influence in international forums have reflected Echeverria's orientation.

C. Dynamics of Policymaking in Mexico

14. The Mexican president is the center of decision-making in a highly authoritarian system, and, during his single six-year term, he operates under startlingly few institutional limitations. Public opinion and interest groups including the industrial-commercial elite, the government political party, the military, unions, pressant organizations, and the middle class play only a minimal role in influencing policy formulation; they have at best a chance to react to the president's policies. The legislature, the courts, and local governments do not have even this reactive function.

15. There are, of course, external influences operating on the president. At the most basic level, these influences include environmental factors such as available human and material resources, the traditional structure and style of internal politics, the inherited network of foreign relations, the country's geopolitical location, and the existing guiding ideology of the governing elite. This guiding ideology, the so-called "revolutionary consensus," stresses nationalism. social justice, economic development, and constitutionalism (i.e., no reelection). Although a president cannot appear to be acting against any of the elements of the consensus, he has great latitude in defining these elements and setting priorities among them. In any case, all of these influences act primarily as constraints or limits, conditioning what a president feels he can do.

16. Of more direct relevance is the influence of the various state agencies on the president's decisions. The bureaucracies of the national government (e.g., the ministries and the semiautonomous agencies such as PEMEX (the state oil monopoly)) have taken on an increasing number of functions involving the stimulation and guidance of societal development. Particularly in labor and economic matters-wage rates, profit sharing, Mexicanization, type and rate of industrialization-state bureaucracies have taken on increasingly wide responsibilities. Mexican presidents are becoming less able to control these bureaucracies and more dependent on the technical expertise that they can provide, both for understanding the problems on which decisions must be made and for executing the decisions. The technocrats of these agencies-in many cases feeling themselves to be more patriotic and less corrupt than the "politicians"-often have strong opinions on the proper course of government policy within their areas of expertise; their influence could be great on a distracted, uncertain, or weak-willed president. However, it is unlikely that Lopez-Portillo will be this kind of a leader.

II. THE OUTLOOK FOR MEXICO UNDER LOPEZ-PORTILLO

A. Profile of the New President

17. Given the Mexican system, the philosophy, stability, and strength of the president are all "important." Unlike all but one of Mexico's post-revolutionary civilian presidents, Lopez-Portillo came to the presidents from an academic and administrative background rather than through the official party organization and the political bureaucracy (Interior Secretariat). While this augurs well for public administration and the economy, the new president's lack of political experience could cause him problems in managing the political process.

18. In assuming the presidency, Lopez-Portilio follows a family tradition of government service. Both his great grandfather and his grandfather served as governors of Jalisco state. His father, Jose Lopez-Portillo y Weber, was a recognized soldier-historian-engineer who played an important role in the historic petroleum nationalization of 1938. He authored a number of scholarly works, including a history of Mexican oil. The new president appears to have

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identified strongly with his father's intellectual and literary bent; Lopez-Portillo's novel, Ouetzolcoatl, is based in part on his father's historical work. On the occasion of his father's death in 1974, he referred to his father as his best friend and distributed copies of his father's book on Mexican oil.

- 19. Lopez-Portillo joined the official party shortly after he enrolled in the National Autonomous University of Mexico in 1939. After earning his law degree in 1946, he taught law and political science at the University and at the National Polytechnic Institute for the next 21 years. In 1959, he began his concurrent public career with a series of appointive jobs that included membership on commissions on urban development and administrative reform and the position of chief legal consultant to the Secretary of the Presidency. In 1970 he was appointed Undersecretary of National Patrimony by his former schoolmate and long-term friend, President Echeverria. During the Echeverria administration he also served as Chairman of the Federal Power Commission (1972-73) and was Secretary of Finance (1973-75) until resigning to become the official party's candidate for president.
- 20. Lopez-Portillo appears to be an unusual combination of idealist and pragmatist. He places political events in a broad temporal perspective, which recognizes the evolutionary character of historical development. Although his tendency is to move in a cautious and deliberate fashion, this does not hinder his ability to respond to current problems and urgent needs.
- 21. A man of precise and meticulous intellect with a strong philosophical inclination-amply evidenced in his treatise The Cenesis and General Theory of the Modern State and his philosophical satire Don Q-he places a high value on language and ideas, emphasizing especially the importance of individual rights. Particularly in times of stress or uncertainty, he can be expected to rely on his intellectual approach to problems developed over many years in the academic world. On the other hand, he is well aware of the dangers of ivory-tower thinking; in his novel Quetzalcoatl, the great Toltec culture-hero lets his nation fall into administrative chaos while he studies the stars. Indeed, the elimination of inefficiency in government was one of the strongest themes in his campaign speeches. 'According to an Embassy assessment,

"Lopez-Portillo's personal style of governing should contrast with Echeverria's. We suspect he will delegate more authority, engage in less frenetic activity, and be less aisstere in his public and private manner. He has an appealing personality and presidential appearance, which will stand him in good stead with a Mexico that yearns to be proud of its president. He is likely to be Mexico's first genuinely respected and well-liked president since Lopez Mateos (1938-64) and perhaps easier to deal with as a result." A major question that arises with regard to the new president is whether, given his tendency toward broad-scope thinking and delegation of authority, he will maintain adequate control over the bureaucracy and particularly over the state agencies.

B. Priorities of the Administration

- 22. The priorities of the Lopez-Portillo administration will be determined by the gravity and immediacy
 of Mexico's social and economic problems, by the
 limitations of the Mexican decisionmaking process,
 and by the character and philosophy of the president.
 Although, in keeping with the Mexican tradition, the
 president-elect was unable to publicly define his
 position to the eatent that it conflicted with that of
 the outgoing president, Lopez-Portillo has revealed
 much of his political and economic thinking in his
 writing and in private conversations. We assume that
 the new president's personal bent will prevail in all
 cases where it does not conflict directly with Mexican
 social and economic reality; in other cases a comproriise will be reached.
- 23. The Lopez-Portillo administration will put its commonic problems, including those involving US-Mexican relations, first. Mexican relations with the Third World, so strongly emphasized by Echeverita, will not be given the same importance under the new president. The shift in emphasis will, we foresecreate little popular opposition, since neither the general public nor any important subgroup has wholly identified itself with or benefited from the official position on the Third World advanced by Echeveria himself. The United States must, however, be prepared to see Mexico maintain positions in international forums that at times run counter to its own.
- 24. Lopez-Portillo has indicated through a variety of channels that he wants a closer and more harmonious relationship with the United States than



existed in the time of Echeverria. Here again, we see no important forces that would work against the



25. It is in the area of domestic priorities that Lopez-Portillo will face his greatest obstacles. Although concerned with social justice, he will give highest priority to achieving progress through implementation of sound economic policy. The first priority will be to restore financial stability. All interest groups recognize the importance of this task, but they also all hope that it can be done at little or no cost to themselves. Compromises are likely. A closely related priority is that of restoring business confidenceincluding that of foreign investors-and the president's program may run afoul of reactive groups such as organized labor. Here again, some compromises appear probable, in the longer term, we expect the president to attack the interrelated issues of oil, agriculture, economic growth, and international trade. We believe that Lopez-Portillo will-at least in the first years of his administration-give relatively low priority to political and social problems. Although the president is concerned with the all-important problem of population growth, he is unlikely to find the time or resources to make a vigorous attack on this problem early in his administration

C. Prospects and Possible Strategies

Stabilization, Confidence, and Trade

26. After successive devaluations, the Mexican peso is now undervalued; the problem is no longer one of restoring international competitiveness, but of restoring confidence. The peao's depreciation in international exchange markets after the September decision to float was more than double the estimated ecosion of its value through inflation from 1957 through 1976. Despite undervaluation, further depreciation was feared, and massive capital flight was stemmed only

by temporary limitations on foreign exchange transactions.

27. Mexico's last devaluation before the current series (April 1954), which set the stage for two decades of growth with stability, also had severe initial effects. The cause of the 1954 devaluation and the immediate public reaction to it were much the same as in 1976. Although the balance of payments had been under severe pressure for over a year because export prices and volumes had slumped with the end of the Korean War boom, it was substantial capital flight that precipitated the move. Popular reaction to the devaluation was swift and much sharper than expected. Confidence in the government fell, and capital flight increased rather than moderated after the devaluation. Foreign reserves fell by about one half between April and June. Other hoped for benefits of devaluation also failed to appear. Imports, primarily capital goods, continued unchanged, while the dollar value of exports, primarily raw materials, declined. Tourism sagged as domestic prices jumped. The government set about the task of restoring public confidence, attracting investment, and encouraging exports. Some three months after the devaluation the situation began to improve-largely because of a good harvest in Mexico and economic recovery in the United States. Capital flows were reversed before the end of the year. In 1955, inflation receded and the current account went into surplus. The initial undervaluation of the peso-despite its lack of immediate effects-enabled Mexico to live with inflation rates higher than those of its major trading partners for many years.

28. This does not mean that stabilization will come as quickly this time as it did in 1954. Progress will depend on such imponderables as the rate of recovery in the United States and the size of the Mexican harvest. If Lopez-Portillo acts as we believe he will, however, the final results should be similar. The new president reportedly is critical of the handling of the devaluation. His implicit argument appears to be that, given the declining inflation rate and improving trade delicit in the months immediately preceding the devaluation, improved confidence to stem speculative capital flows was an indispensable companion piece to devaluation.

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- 29. If this is indeed the president's understanding of the situation, we believe he will follow the following stabilization strategy:
 - Hold a series of public and private talks to persuade businessmen that his administration understands their problems;
 - Solidly affirm the objective of reestablishing the strength of the peso;
 - Reemphasize that the government has no intention of establishing foreign exchange controls;
 - Take special measures to aid individual indus-
 - Make use of wage and price controls to reduce the inflationary effects of the devaluation; and
 - Announce specific programs to reduce the public sector deficit without greatly increasing the tax burden on business.
- 30. Lopez-Portillo is known to support the stabilization plan presented to the IMF in the last days of the Echeverria administration. This plan sets out a number of economic measures designed to bring about important structural changes in the Mexican economy. The somewhat optimistic basic objectives of the plan are to:
 - Improve the real economic growth rate:
 - Increase employment;
 - Stimulate domestic savings and reduce foreign borrowing;
 - Bring prices in line with those of major trading partners; and
 - Achieve a sustainable balance-of-payments equilibrium. The program relies heavily on a fiscal policy of reducing the public sector deficit as a percent of CNP and on an effective incomes policy.
- 31. The public sector deficit increased rapidly under Echeveria and is currently more than 8 percent of GNP. This should be reduced to no more than 2½ percent of GNP in order to bring external and domestic borrowing down to a manageable level. We doubt that the government can effect such a reduction in less than three years.

- 32. On the expenditure side, we believe that the government will try to hold its investment expenditures at about 8 percent of GNP-the current level-through better management and strict prioritization. The growth of current expenditures will be cut partly through a reduction of government subsidies but mainly through control of the public sector wage bill. The stabilization program calls for reducing the annual growth rate of of federal employment from 10 percent to 2 percent in pursuit of this goal, the government freeze instituted in the last months of the Echeverria administration may be extended well into 1977. Lopez-Portillo is also known to be considering a major streamlining of the executive branch to cut costs and increase control, and he is expected to hold down the rise in public sector wage rates. On the revenue side, the new government plans to raise its receipts from 26 percent to 30 percent of GNP by hiking *axes and increasing the prices charged by state enterprises.
- 33. Although cutting the public sector deficit would In itself have a favorable effect on business confidence, the tax hikes involved in this effort-which will fall mainly on business-could undermine this effect. Confidence will be doubly undermined if Lopez-Portillo is unable to limit the growth of real wages. Organized labor traditionally has been a reactor rather than an actor in Mexican decisionmaking; there are signs, however, that this is changing, Independent unions are growing in importance, the aged leadership of the government dominated labor confederation can not last another six years, and the favoritism that Echeverria showed labor may have become institutionalized. Despite these factors, we believe that the new president has the inclination and the political power to hold real wages below predevaluation levels during the crucial first years of his stabilization plan.
- 34. Substantial improvement in the balance of trade is not expected in the short run. Commodity export trends depend heavily on continued recovery of foreign demand, notably in the United States which accounts for 60 percent of Mexico's foreign sales. Capacity limitations caused by several years of lagging capital investment will limit increases in manufactured goods exports. Foreign tourism in Mexico, which usually provides 10-15 percent of foreign exchange earnings, is expected to respond more quickly, and Mexican tourism abroad will be

discouraged Imports, primarily raw materials and capital goods, cannot be cut sharply without curbing economic growth. This year's current-account deficit will total an estimated \$3.4 billion. The government has used most of its foreign exchange reserves and is now relying on large foreign loans to offset recent massive capital flight.

35. In the medium term, currency devaluation should improve the trade account. If Lopez-Portillo is able to induce increased investment in the private sector, a sharp upswing in exports of manufactured goods, especially those of the border industries, should be possible. Exports of raw materials and agricultural products should also increase somewhat as foreign consumers adjust to changes in relative prices and producers take advantage of the more favorable foreign market. Continued import substitution will be encouraged, especially in the manufacture of capital goods.

36. We believe that Lopez-Portillo's stabilization plan will have achieved substantial success by the end of 1978. This will have been as much a result of the president's words as of his actions. As foreign exchange earnings—led by oil, border industries, and tour-ism—pick up, foreign and domestic businessmen will begin to believe in the presidential commitment to exchange rate stability. Pro business statements, backed by even partially successful efforts to cut budget deficits and hold down wage rates, will create a new atmosphere. Large-scale capital flight should cease in 1977 and new inflows begin well before the end of 1978. The inflation rate, which may exceed 20 percent in 1977, should fall substantially the next year.

Oil

37. As the emphasis of Lopez-Portillo's economic policy shifts from stabilization to growth, oil will become increasingly important stabilization to growth, oil will place oil reserves in the Reforma area to 1 abasco and Chiapas states at 20.40 billion barrels, and we believe that additional drilling could yield reserves as targe as those of Kuwait—over 60 billion barrels. An all-out development effort would allow Mexico to produce 2.7 million barrels per day and export 1.6 million barrels per day in 1980. At current prices—and we expect Mexico to follow the OPEC-set price though not to join the organization—such a level of exports

would bring in \$7 billion a year. By the end of Lopez-Portillo's term in 1982, Mexico could be well on the way to becoming one of the world's major oil exporters.

38. The new president would clearly like to produce and export oil at something near the maximum rate. He has already indicated that the petroleum sector. along with agriculture, would receive the lion's share of government investment funds. Shortages of equipment and, in some cases, trained personnel could slow development. Although there is a worldwide shortage of rigs capable of drilling to the depths where oil is found in the Reforma area, this shortage has ameliorated greatly in recent months. Lack of equipment should not prove an insurmountable problem, provided PEMEX can obtain sufficient funds or supplier credits. The Mexican policy of demanding a percentage of domestic content in equipment purchased by PEMEX could prove troublesome, if not modified by the government. Although PEMEX workers and engineers are in general quite competent, the pace of development could be increased greatly if foreign contractors were used. Such a step would be contrary to government practice and ideology; Lopez-Portillo has indicated privately, however, that he may make some moves in this area even at the risk of antagonizing PEMEX officialdom.

39. Obstructionism by PEMEX officials and others in the government may prove to be the most serious obstacle to the president's plans for increased production. These officials generally believe that crude output should eventually be limited to amounts that Mexico's refineries can process and that only refined products should be exported. Conservationists within PEMEX also worry that accelerated rates of production could result in the waste of associated gas and limit the long-term productivity of the fields. Lopez-Portillo has some sympathy for these views-wasteful production in the Faja de Oro fields in the 1920s is given great emphasis in his father's book on Mexican oil. The president feels, however, that much higher than current growth rates are well within the bounds of prudent exploitation policy.

40. Much will depend on the ability of the administrators that the new president appoints to the PEMEX hierarchy to make the president's desires felt throughout the organization. Middle-level engineers



and hurcaucrats have been notably secretive about the country's increasing oil reserves—in some cases apparently withholding such information from their superiors and from the president himself. On the other hand, the desire of PEMEX technicians to show themselves technically efficient—and how better could they do so than by rapidly increasing production?—and the need of PEMEX to increase exports to pay for equipment imports will strengthen the president's hand. The appointment of Jorge Diaz Serrano as the Director General of PEMEX should greatly assist the president in his efforts to control the PEMEX breaucrapex.

41. In an assumption which we consider most probable, Lopez-Portillo wins most but not all of his battles with the bureaucracy. This would result, by 1980, in a production level of 2.3 million barrels per day and exports at 1.2 million barrels per day (see Table). Such rates would allow Mexico to achieve an extimated current account surplus of \$1.4 billion, despite large and growing imports required for capid economic growth. Under an alternative, far less likely assumption, Mexico limits its oil output to the level of 1st domestic needs. With zero oil exports, the current account deficit would be close to \$4 billion in 1980 (see Graph).

PROJECTION OF CRUDE OIL PRODUCTION AND EXPORT LEVELS

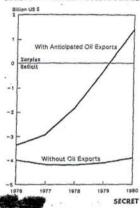
(assuming major but not all-out effort)

Year	Production	Exports
1977	1,200,000 h/d	300,000 b/d
1978	1,500,000 b/d	550,000 h/d
1979	L/830.000 h/d	850,000 b/d
1980	2,300,000 h/d	1.200,000 h/d

Agriculture

42. Along with petroleum, Lopez-Portiilo has stated the he will give increased attention to agriculture. Mexican agriculture is gripped by two very difficult problems. Increased food production primarily from large commercial farms (i.e., farms having the legal maximum of 100 hectares of irrigated land) is needed to feed the rapidly growing population and to earn foreign exchange. Continued land redistribution to create more rural employment is needed to slow down migration to the cities and to the United States.

Mexico: Outlook for Current Account Balance



Attempted solutions to one problem often exacerbate the other.

- 43. The factors limiting increases in food output are not easily overcome:
 - Mexico has almost run out of new land to bring into cultivation unless expensive long-range development of the tropical southern low land is undertaken:
 - The most readily irrigable land is already under cultivation:
 - About 80 percent of the crop land is in small plots cultivated by subsistence and semicommercial farmers; and
- Expectations of further land reform keep the large commercial farmers from investing to increase output.

44. The new government must raise productivity in both the modern and traditional farming sectors. The large farmers need security for their holdings or they will continue to restrict needed investments. These farmers also need continued price incentives, a steady flow of new technology, and other economic encouragement to use their land more intensively. The greatest potential for improving agriculture, however, is in those areas of the traditional farming sector with high annual rainfall. Widespread application of presently available technology could in time make Mexico self-sufficient in corn. To do this, the government would have to provide significantly more direct assistance to the small farmers in the form of financial assistance, education, price incentives, and modern infrastructure facilities. Organizing this assistance would be a slow process and would be costly. It would take five to ten years to make a significant improvement in output.

45. Although land reform is an important part of the governing party's ideology, we believe that Lopez-Portillo will stress increased production rather than continued land redistribution. He has stated that "the land doesn't stretch," that he wishes to avoid further division of land holdings into non-economic units, and that many small farms and cooperatives should be combined. We doubt that Lopez-Portillo will reverse the land redistribution executed in the last days of the Echeverria administration. Echeverria's action, however, will pose a serious problem of private sector confidence for the new president. In any event, even radical land redistribution could help only a small part of the 4 million landless peasants in the country. From the point of view of political and social stability, it may be more important to feed the many peasants who go to the city than to accommodate those who stay behind agitating for their own plots of land.

46. Mexico currently has a small favocable balance of agricultural trade, and we expect that it will be able to maintain this favorable balance during most of the next six years. Corn imports, however, will continue to increase spondically, and, in years of poor rainfail, could cause an overall agricultural trade deficit. The growth of agricultural exports will depend largely on the government's attitude on land reform and the amount of resources that the government is willing to invest in the agricultural sector.

Growth and General Economic Outlook

47. A dramatic improvement in the economic growth rate is highly unlikely during the next two or three years. Only after stabilization is seen to be working and business confidence is fully reestablished will foreign and domestic entrepreneurs make the investments necessary to return Mexico to its traditional growth rate. We doubt that the average annual growth rate will exceed 41/2 percent in the period 1976-78. The outlook for the last three or four years of the Lopez-Portillo administration is much brighter. Given the absence of domestic turmoil and foreign recession, we expect Mexican economic growth to average in excess of 7 percent annually in 1979-82. We see such growth being export-led, with oil, tourism, and border industries playing the most important roles

Political and Social Prospects

48. Although Mexico faces serious long-term social problems, we do not see these becoming unmanageable. We do not expect rural and urban unrest, land seizures, strikes, and guerrilla or terrorist operations to cease; indeed, they could increase marginally as the initial social costs of stabilization begin to be felt. We believe, however, that the government will be able to maintain its authority and to stifle and deflect pressures through the traditional methods of cooptation, coercion, and limited reform.

49. We agree with an Embassy assessment that "a split within the ruling coalition, not generalized social unrest, would constitute the most immediate real danger to political stability." The most likely source of such a split would be organized labor.

This could lead to an internal leadenship coffice in which important members of the ruling party, both inside and outside the labor movement. Ine up against each other. Although rival union leaders would be more likely to look up to the party leadership than down to the workers for their support, there would be an inevitable breakdown of labor discipline. Moreover, a major party split would undermine the president's authority in all areas—and what authority remained would have to be expended what authority remained would have to be expended.

in political fence-mending rather than in solving or containing the nation's social and economic problems. In such a situation, it is not impossible that new leaders—possibly from outside the party and unconnected with the labor movement—could challenge the party's right to rule and the whole Mexican political system. Such leaders might gain considerable middle-class support.

50. We do not believe that the above scenario is likely. The Mexican system has faced a number of similar crises in the past and seems well designed to handle them. Much depends on the strength and will of the president. In the case of a serious union leadership dispute, we would expect the president to come down early and heavily in favor of one of the candidates. The other rivals would be told forcefully that they had everything to lose by crossing the president and a great deal to gain by going along with the presidential decision. The Mexican president has the power to make either the carrot or the stick large enough to do the job.

III. THE IMPACT ON THE UNITED STATES

51. Lopez-Portillo gives every indication that he will take a realistic and constructive approach to relations with the United States and the industrialized world. In private conversations with US officials the president has emphasized his belief that Echeverria's Third World posturing has been counterproductive. It is clear, however, that the president sees "improved relations" as a two-way street and hopes to maximize the economic, financial, and commercial benefits of the new relationship.

52. While we expect Lopez-Portillo to reduce government criticism of the United States and to assume a more cooperative attitude in international forums, he will also try to keep his nationalist credentials in good order. He and his advisers understand US domestic constraints, but if he feels the US response is inadequate to meet what he considers are just demands, Lopez-Portilli, may revert to a harder and less cooperative line.

Lopez-Portillo does not seem to have any sense of insecurity vis-a-vis the United States and can be expected to approach issues from a posture of psychological equality and self-confidence. There should be an ample opportunity for businesslike exchanges of ideas.

A. Illegal Immigration

53. The number of Mexicans entering the United States illegally is growing steadily. According to figures compiled by the US Immigration and Naturalization Service, nearly 700,000 illegal Mexican immigrants, or "undocumented migrants," were returned in 1975. There is no reliable data on how many escape apprehension, but the number is probably much greater than those returned each year. Although the problem has not yet been adequately studied, both sides recognize that it originates in Mexico's underdeveloped and overpopulated rural sector and responds primarily to continuing US demand for low-status, low-wage labor.

54. In addition to acting as a safety valve for excess population, illegal migration benefits the Mexican economy in several ways. According to a recent MIT study of selected Mexican communities, most illegal migrants stay in the United States only a limited time-usually from six to eight months. Most migrants, while in the United States, send cash remittances of between \$100 and \$300 a month to their families in Mexico. Such remittances stimulate community economies and slow rural-urban migration within Mexico. Moreover, many returned migrants, having acquired capital and learned new skills in the United States, assume positions of economic or political importance in their communities. The overall effect is to increase the economic and social viability of rural life in Mexico.

55. Since late 1974 the Mexicans have chosen to attack the problem of illegal immigration by establishing labor intensive industries in rural areas. Given the size of the problem, the depressed state of the rural sector, and the shortage of economic resources, this approach will be long and slow.

56. As part of an effort to increase employment in rural areas, Lopez-Portillo will probably ask for special access to US markets for Mexican agricultural products. This would complement plans to create labor-intensive "agricultural production units" to produce agricultural products for export. Lopez-Portillo may also try to get another farm labor agreement with the United States as a part of a

package that would include increased investments in the rural sector and greater access to US markets. The Lopez-Portillo government will try at all costs to avoid any sudden forced return of masses of its nationals from the United States. Such action would greatly increase unemployment, rural unrest, and internal migration to Mexico's large cities.

57. No single approach is likely to reduce the flow of illegal migrants significantly in the near term. Moreover, many approaches encounter conflicting reactions from US labor unions and agricultural interests. Thus, we expect illegal immigration to continue to grow as long as the incentives to migrate—higher wages, better living conditions, and plentiful jobs—are present.

B. Narcotics

58. Most of the heroin and much of the marijuana and dangerous drugs entering the US market are produced in Mexico. Coaine transits the country en route to the United States. The magnitude of the problem has increased in recent years. There have been indications in recent months that last season's eradication effort has had some impact on the street availability and purity of Mexican heroin in the United States. A sustained Mexican effort will be required, however, if Mexican narcotics are to be reduced over the longer term.

59. Both the United States and Mexico have committed considerable resources to stop illegal traffic, and the Mexicans have made the politically sensitive decision to use herbicides. We believe that the Coper-Portillo administration, at the policy-making level, will maintain Mexico's commitment to the antinarcotics effort. Loper-Portillo is concerned over Mexico's own internal drug abuse problem. Because of the centralization of authority in Mexico City, the current poppy readication program will suffer during the change of administration. Current managers feel that new major program decisions must await the appointment of the new team. More important over the long run will be the degree of dedication of the new leadenship, which at this time

remains unknown. Lopez-Portillo asserts that the basis has been set for expanding the drug control program and has indicated that he would welcome more US help.



Poor management, insufficient manpower, inefficient use of resources, and bureaucratic rivalries remain problems. Natural factors, such as the long growing season and the variety of suitable growing areas, are hard to overcome. Finally, in areas where drug cultivation is the major source of livelihood, any major campaign to eradicate the trade—would meet with strong rural resistance which has been increasing steadily over the past eight or nine months. Apparently in recognition of this resistance as well as the severe problems in the rural sector, Lopez-Portillo campaign statements emphasized the need to find alternate sources of income for the campesinos who grow illicit crops.

C. Trade Relations

62. The new president will undoubtedly uphoid Mexico's traditional policy of using trade to support industrialization. This means protection of Mexican industry by tariffs and import licensing requirements as well as strong opposition to restrictive measures—such as import quotas, seasonal traiffs, and orderly marketing agreements—applied by developed countries against Mexican exports. The differential export taxes impored after the first devaluation have

been reduced in some cases and eliminated in others, but they remain potentially troublesome.

63. Mexico is the fourth ranking customer for US exports, and the United States is by far Mexico's leading export market. Nevertheless, US-Mexican trade is hampered by restrictions imposed by both sides. Several of Mexico's important agricultural exports to the United States are subject to marketing orders (although these have not seriously hampered exports in recent years), and its industrial exports are subject to a certain degree of tariff escalation. On the other hand, Mexico is a major beneficiary of the US duty-free system of preferences as well as of US legislation governing border industries. Many products of Mexican protected industries can enter the US market at sufficiently low tariffs to compete successfully. Nevertheless, Mexico feels wronged by the restrictions that do exist and by the threat of new or tougher ones (e.g., marketing orders, countervailing duties, and quotas) and believes that its massive trade deficit with the United States justifies its own protectionism.

64. Lopez-Portillo can be expected to ask for increased Mexican access to American market. In various statements, he has stressed that high unemployment and the resulting flow of illegal aliens into the United States should be attacked by creating jobs in the export sector. We therefore expect him to push for abolition of seasonal duties and US marketing orders (e.g., on tomatose, onions, and strawberries) and for "special" application of CSP provisions for Mexico. We believe he would react strongly to any attempt by the United States to create new barriers by changing US Taniff Codes 806.30 and 807.00, which are essential to Mexico's border industries program.

65. Mexico has granted its domestic industry almost total protection from competing imports. Its policy is to deny the entry of goods similiar to those made in Mexico as well as to restrict most other imports not considered esential to economic growth. The recent devaluation, however, has allowed Mexico to drop import licensing restrictions on some items and to lower import tariffs. Nevertheless, tariffs on consumer goods, especially luxury goods, are stiff very high and probably will remain so while the government implements its stabilization program.

66. Mexico is not now a GATT member and thus not bound by its trading rules, reducing US leverage on Mexican trade policy. The United States is reluctant to resort to bilateral negotiations at a time when it is attempting to move most trade negotiations into the multilateral arena. The United States has urged Mexico to join GATT, but thus far the Mexican government has stated that its decision will depend on completion of the GATT reform with regard to special treatment of LDGs. The prospects of Mexico joining should improve under the new administration. Lopez-Portillo has privately said he looks forward to working together with the United States in the Multinational Trade Negotiations and that he hopes to bring Mexico into GATT during his administration.

67. Mexicanization, although administered in a nondiscriminatory manner, will continue to affect US private investment. We do not expect Lopez-Portillo to make major changes in Mexico's foreign investment law; we believe, however, that the president recognizes the need for foreign investment and will be willing to adjust procedures and expedite decisions. In his meetings with foreign businessmen Lopez-Portillo has stressed that, while Mexico welcomes foreign investment, such investment must be selective and contribute directly to Mexico's development by creating lobs and earning foreign exchange. Lopez-Portillo has indicated that he will review the controversial Patents and Trademark Law for possible conflicts with Mexico's international treaty obligations. This law includes requirements for the use of a Mexican trademark and shortens the life of exclusive trademark and patent rights. Its modification would be a highly visible welcome sign to foreign investors.

68. Lopes-Portillo's hopes for foreign investment may run afoul of some ideologically opposed Mexican bureaucrats. The National Commission of Foreign Investment recently deew up proposals that would substantially righten controls on such investment, especially in the food and beverage industries. The proposals reportedly were drawn up without being coordinated at the secretarial level, and their adoption is not likely. We believe that this bureaucratic maneuver was implicitly encouraged by the antibusiness and antiforeign attitudes of the Echevertia administration. To the extent that Lopes-Portillo makes known his own attitude, we expect lower-level

bureaucrats to be much more cautious in their actions and proposals.

D. Oil

69. Although, as we have stated earlier, Lopez-Portillo appears to desire a rapid and orderly expansion of Mexican oil production, such a result is by no means assured.

private companies, working closely with FEMEX, could speed up the process, but they are not the critical factor. Lopez-Portillo has indicated that he might be receptive to some form of US private sector involvement; there is a strong under-current of respect for the US oil Industry's technical capabilities running through his father's otherwise highly nationalistic book on Mexican oil. Since his new government is short on investment capital, imaginative proposals by

US companies involving financing of equipment, technical assistance, particularly for offshore development, and possibly construction of such infrastructure facilities as coastal storage and loading installations might find acceptability



From Lopez-Portillo's vantage point it is politically essential that a Mexican oil production campaign be clearly identified as a Mexican initiative serving Mexican, not foreign, interests.

Title:	MEETING WITH THE PRESIDENT, OVAL OFFICE, 1 DECEMBER 1976, 9:00 TO 9:30 A.M.
Abstract:	
Pagesi	0001
Pub Date:	12/2/1976
Release Date:	1/18/2001
Keywords:	MEXICO MEETING JEXPLOITATION JBUSH GEORGE JOPEC GLOMAR EXPLORER JSCOWCROFT GENERAL JMIG-23
Case Number:	EO-1999-00071
Copyright:	0
Release Decision:	RIFFUB
Classification:	U

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2 December 1976

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with the President, Oval Office, I December 1976,

9:00 to 9:30 a.m.

PRESENT: The President

General Scowcroft

George Bush

The following subjects were discussed:

- Mexico: I briefed per the briefing paper attached.
 The President expressed his concern about Echeverria and indicated that he would not favor him for Secretary General of the United Nations. Clearly, we ought to not let that happen. Discussion ensued about UN procedures in the Security Council, etc.
- OPEC: Briefed using the OPEC briefing paper, concluding with our feeling that price rise would probably be about 10 percent, and I told the President of the impact that would have on the U. S.
- 3. Glomar Explorer: I stated to the President that we had leveled, and that the $\underline{\text{Time}}$ magazine story which was out yesterday was totally false.
- 4. MIG-23 Exploitation: Per memom (30 November 1976), I briefed on the competitive analysis situation stating that they would be in to see the President, and clued him in on the situation regarding Team A and Team B. The President indicated that he was concerned about the leaks coming out of the Pentagon on such things as civil defense, anti-Soviet ability to knock out satellites, Backfire, etc. He indicated that if the Pentagon had cooperated, they would have had a much better chance for a SALT agreement.

Those were the only items covered.

APPROVED FOR RELEASE DATE: MAR 1999

George Bush Director

SECOLOGICATION

Title:	LATIN AMERICA - REGIONAL AND POLITICAL ANALYSIS
Abstract:	
Pages:	0006
Pub Date:	3/17/1977
Release Date:	10/8/1997
Keywords:	MEXICO (LATIN AMERICA (ANALYSIS (POLITICAL (OPERATION)NAR COTICS) TRAFFICKING (REGIONAL (DRUGS) CONDOR
Case Number:	F-1990-01477
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Release Decision:	RIPPUB
Classification:	U

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Latin America

REGIONAL AND POLITICAL ANALYSIS

RELEASED Oct 1997



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LATIN AMERICA 17 March 1977

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Operation Condor I: Mexican Military's Anti-Narcotics Campaign

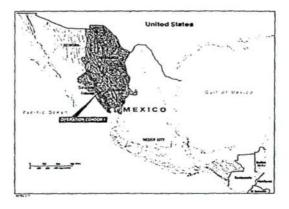
Operation Condor I, a special military task force assembled to augment the Mexican government's opium eradication program, appears to be making a contribution to Mexico's overall drug control effort. Working in conjunction with Attorney General Oscar Flores Sancher, who is responsible for narcotics suppression in Mexico, Secretary of Defense General Galvan Lopez has deployed approximately 1,200 troops into the tri-state region of Chihuahua, Sinaloa, and Durango. The mission of the task force is to disrupt drug trafficking and curtail the general lawlessness which prevails throughout the northwest sector.

The operation has been besieged by a host of probless. The difficult terrain and limited airlift support has hampered the effectiveness of Galvan's campaign from the outset.

A general lack of supplies has added to the military's difficulties, as have limited intelligence and communications capabilities.

In spite of the serious obstacles, the military has demonstrated certain strengths which have enabled Condor I to achieve some success. The task force is under the able command of General Jose dernandez Toledo, an honest and disciplined leader who enjoys a hero-like reputation in the 1rmy. He and his subordinate commanders constantly move throughout the tri-state area analyzing operations, critiquing junior officers, and correcting deficiencies.

Organized in five-man assault squads called pelotones, the troops are systematically destroying smaller poppy fields which were not chemically sprayed by helicopter. They are also quarding clandestine airfields, dismantling illicit processing laboratories, and operating extensive, mobile roadblocks throughout the cropgrowing sectors.



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是国际的人,他们也是这种人的人,他们也是一个

A recent new rash of gangland shootings in Culiacan may be a further indication that rival bands of traffickers are vying for a diminishing supply of drugs. Also, drug production "ranches" in the Sinaloan mountains reportedly are being deserted by campesinos who know of Operation Condor's activities. Construction has tapered off on new houses for Durango traffickers who have a reputation for conspicuous and lavish dwellings.

The Mexican armed forces traditionally have focused on internal security, but as narrotics trafficking has taken on more ominous dimensions the military's role has expanded to include the elimination of drug snuggling as a function of national security.

Condor I is a tactical operation, restricted to the mountains and valleys where the poppies are grown and processed.

Strategically, the long range success of Mexico's drug control program will depend on a strong endorsement by the Mexican government, effective administration of the eradication and enforcement programs, and the continuing commitment of resources to a priority problem. The military's role in Operation Condor I is an indication that Mexico is one step closer toward achieving

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that success. Operation Condor II is presently unfolding in Michoacan, and subsequent Condor campaigns may be undertaken in the regions. But as long as the drug industry's management remains relatively unaffected, the destruction of raw materials and detention of lower echelon traffickers will constitute only a partial success.

Reducing corruption to a manageable level, educating a society to the dangers of narcotics abuse, and
developing alternate sources of income for the rural
sectors of Mexico that have become dependent on oplum
poppy cultivation are some of the areas which may be
outside the realm of Condor I. Nevertheless, they are
issues the government will have to address if Mexico's
overall anti-narcotics program is to have a lasting
effect.

Title:	SOVIET INTEREST IN LATIN AMERICA (RP 77-10090)	
Abstract:	1	
Pages:	0016	
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Release Date:	1/29/2001	
Keywords:	SOVIET ANALYSIS SOVIET POLITICAL ANALYSIS	
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Classification:	U	

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Soviet Interest in Latin America

RP 77-10090 April 1977

NATIONAL SECURITY INFORMATION Unauthorized Disclosure Subject to Criminal Sanctions

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Esampt from General Declassification Schedule
of E.O. 11632, esamption cothogory
Sec. 36(1), (2), and (3)
Automatically declassified on,
date impossible to determine



Soviet Interest in Latin America

Central Intelligence Agency Directorate of Intelligence April 1977

Key Judgments

The Soviet Union has long been interested in increasing its influence in Latin America, but has had difficulty in formulating a successful policy for the area. Early attempts by Moscow to use the local communist parties to gain a foothold failed, in part, because the Soviets did not understand the Latin American milieu and had little expertise in Latin American affairs. Until the early 1960s they seemed to assume that because of the basic instability of the area, "socialist" revolution was inevitable once a local communist party was activated. The basic flaw was their belief that Latin America was, and is, overwhelmingly dominated by conservative forces that have been unsympathetic to Moscow, Moreover, the area did not fit the Soviet mold of revolution in less developed nations. The countries have been independent for a long time; they are culturally and politically developed; they have a rather extensive educated clite, and for the most part, they are not attracted to forcign political ideologies and have regarded the Soviet Union as a political and Ideological pariah.

In recent years, however, the Soviets have had some success in the area—most dramatically, of course, in Cuba. They have made these gains by shifting their emphasis from local communist party relationships to state-to-state relations. Soviet prospects are still limited, however, by Moscow's own economic problems and its inability in most cases to provide the Latins with any civilian technology they do not already have. Soviet successes have been partly the result of growing expertise in Latin American affairs and a relative decline of US influence in the area. Other factors have been the latent anti-US nationalism present in Latin America, the Soviet Union's emergence as a global power with observable economic, military, and political clout, and the surrival of Castro's Cuba with Soviet assistance.

There now seems little doubt that the Soviet presence in Latin America will increase in the future, especially as East-West tensions relax. The Soviets are now beginning to view the area not as a region within the US sphere of influence, but as an areaa for US-Soviet competition. Although Latin America certainly is not on the "front burner" of Moscow's priorities, the Soviets are not likely to ignore any opportunity to erode the economic and political power of the US. The Latin Americans' grudging appraisal that they have been overly dependent on the US for political, economic, and military assistance and should now seek alternative friends, suppliers, and markets is made to order for Soviet exploitation.

The current economic recession in the West, the increasing effort by many Latin nations to use their raw materials as an economic lever against the US, and the current impasse between Washington and much of Latin America over the human rights issue can only encourage Moscow. As long as the Soviets continue their low-key approach to the region, as long as they are willing to cut their losses during periodic reversals such as in Chile, and as long as the US fails to stabilize its own relationship with the Latins, Moscow will be able to make inroads on the still-preponderant US influence in the area.

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Soviet Interest in Latin America

Following the revolution of 1917, the Soviets had little time to give much thought to Latin America. Unlike the West European powers and the US, the USSR had no political, economic, or cultural ties with the area. Peruvian political leader Haya de la Torre, who visited Moscow in 1924 and talked with the new Soviet leaders, was struck by how little they knew about Latin American social conditions. Other Latin American visitors to Moscow came away with similar impressions. Lenin himself had some knowledge of Mexico, but was more interested in the country as a source of potential opposition to US imperialism than in the local politics.

The Soviet Union's first diplomatic incursion into Latin America came in 1924, when it established relations with Mexico. Almost immediately, however, the Mexican government was faced with heavy-handed and crude subversive tactics, and six years later diplomatic relations were severed.

In South America, the Soviets made their greatest headway in Argentina and Uruguay. The first Latin affiliate with the Communist International was the Argentine party. In 1926, Uruguay recognized the USSR, and in the following year, the Argentines allowed the Soviets to set up a trade agency in Buenos Aires. Because of the agency's subversive activities, however, the Argentines closed it in 1931.

During the 1920s, the Soviets were unable to win over any prestigious or popular Latin American political leaders to their cause. In 1931, however, Luis Carlos Prestes, a Brazilian involved in the "Tenentes Movement" was invited to Moscow to be groomed for leadership of the Brazilian Communist Party, Prestes' success in attracting a following was shortlived, and in 1936 he was arrested after being involved in a mutiny of army units. As a result of the uprising, Uruguay—under Brazilian pressure—broke relations with Moscow and protested Soviet attempts to foment revolution in Latin America.



World War II

The heroic image of the Soviet people during the war and Moscow's alliance with the Western democracies created a favorable climate for the renewal of relations between the USSR and Latin America. Between 1942 and 1945, 13 Latin American countries established relations with the USSR (mainly because the US encouraged them to do so). Communist parties were formed in each of the 20 Latin American republics. In addition, Communist-front organizations, such as the World Federation of Trade Unions, the International Federation of Democratic Women, the World Federation of Democratic Youth, the International Union of Students, the International Association of Democratic Jurists, the World Peace Council, and the World Federation of Teachers Unions, became active in the hemisphere.

None of the parties or front organizations was successful in rallying Latin Americans to communism; yet they did serve to mold public opinion and open channels of communication for the Soviets, By the end of 1946, the USSR was formally recognized by 15 Latin American nations and appeared to have gained respectability in the area.

The Cold War

The advent of the Cold War in 1947 ushered in yet another era in Soviet-Latin American relations and reversed the good feelings established during World War II. Brazil and Chile broke relations with Moscow in October 1947, citing interference in local affairs. Ecuador subsequently denied that it had ever established relations. Colombia severed ties in May 1948 following communist-inspired riots in Bogota. In June, Costa Rica and the Dominican Republic followed suit. In 1952, one month after Batista came to power, Cuba severed ties. Havana's action was followed by Venezuela under Perez Jimenez, Guatemala broke relations in 1954 shortly after the overthrow of the communist-dominated Arbenz regime, and Bolivia severed its relations the following year.

The 1960s

The late 1950s and early 1960s marked another turnabout in Soviet-Latin American relations. The major breakthrough was the establishment of relations with Castro's Cuba in 1960. Other factors contributing to the resurgence of the USSR were the Soviets' obvious military and economic power and their potential for increased trade with the region. The campaign to increase cultural ties between the two areas also began to meet with some success, and many Latins, even though they did not approve of the Soviet government, came to admire Russian accomplishments in technology and the arts, Gone from the scene, moreover, were most of the crude Soviet tactics of the 1920s and 1930s. Soviet representatives now appeared to be genuinely interested in state-to-state contacts as well as in Latin American culture, economics, and politics.



Current Soviet Strategy and Activity in Latin America

During the post-Stalin era, the Soviets have tried to carve a niche for themselves-diplonatically, economically, and culturally-in the Third World. In 1961, Khrushchev outlined this policy and made particular reference to the Third World for waging the key battle gainst coionialism and imperialism.

At the 24th Party Congress of 1971, which is best remembered for its approval of the larger concept of detente with the West, Premier Kosygin announced, "In the coming five-year period, the further expansion of the USSR's foreign economic ties with the developing countries of Asia, Africa, and Latin America is planned." These ties were to be established on the basis of a state-to-state relationship. The conspiratorial approach that had dominated Soviet policy in the early days was largely abandoned. Although the Soviets keep in close touch with the local communist parties, there have been few examples in recent years where this contact has been illegal or has been subject to criticism from the local government.

Political Objectives

The Soviets' long-range political objectives in Latin America, as cited by Soviet leaders, were to be attained by continued utilization of the local communist parties, state-to-state relations, and proselytization among university students, labor unions, and cultural organizations. For a period in the 1960s Moscow also viewed the rural peasantry as a revolutionary social force. The Soviets pointed to Cuba as an example of how the destruction of agrarian capitalism by rural-based insurgents can lead to the rise of the peasantry. Moscow concluded that far-reaching and democratic agrarian reform in Latin America was an inseparable part of the antifeudal and anti-imperialist revolution.

Moscow's propaganda support for rural guerrillas, however, was not the same strategy as Castro's, which featured monetary assistance and active participation—actions that severely complicated relations between the Latin American and Soviet governments. The Soviets, nonetheless, certainly would have been happy with a Cuban-supported guerrilla victory. But the crushing of insurgent activity in Bolivia in 1967, coupled with failures in Venezuela, Colombia, Guatemala, and Peru, dampened the USSR's belief in the rural strategy.

The propensity of the Cubans to support the most radical elements rather than the local communist parties, in fact, led to a continuing dispute between the Soviets and the Cubans over what strategy should be utilized in Latin America to bring about "liberation"—Cuba's active support for revolutionary movements or the USSR's utilization of the local communist party as well as state-to-state relations. Only in recent years has this argument been resolved in favor of the Soviets, Moscow is still hopeful that some "progressive" leader will emerge from the governing elite—perhaps a military officer—who will be able to rally both the urban proletariat and the rural peasantry.

This hope notwithstanding, Soviet policy has been pragmatic enough to cover all possibilities. Essentially, the Soviets will give at least moral support to any group or class, acceptable to Moscow, demanding liberation or at least improved living conditions, and will espouse the cause of any nation claiming to be a victim of imperialism. The current situation in Latin America, characterized by underdeveloped, stagnating agrarian, or semi-industrialized economies, presents an opportunity for possible Soviet exploitation. Many Latin American countries—especially in the Caribbaan—so badly need economic assistance that they are beginning to look for help anywhere and everywhere.

The situation in Chile under Allende seemed a Soviet dream come true. In Moscow's view, however, the Chilean regime never was well enough entrenched to prevent the moderates and the right wing from returning to power. When the coup finally occurred, the Soviets were unwilling and unable to intervene to protect their friends. While many Latin American communists undoubtedly were disheartened by Moscow's failure to act decisively, noncommunist leaders apparently were gratified by the Soviets' restraint. One outcome of the Chilean affair has been that many Latins are more willing than before to accept the Soviets as a responsible source of support against US economic or political sanctions. Moreover, since Allende's overthrow, Moscow has identified Peru as a substitute "progressive" nation and has been lavishing attention on the military leadership there.

There is, of course, a coincidence between the Latin American desire to reduce their dependence on the US and the Soviet desire to reduce the US presence and influence in the hemisphere. Moscow has been heartened in this regard by the lifting of OAS sanctions against Cuba, its own increasing diplomatic relations with Latin America, * and Latin support for some of the Soviet line at international forums.

The successful transformation of Cuba into a Soviet client has also been a gain for Moscow. It demonstrated that the Monroe Doctrine-preventing extrahemispheric interference in Latin America—is a dead issue. In the Cuba-USSR relationship, although Havana is not necessarily a surrogate for Soviet policies in the hemisphere or the rest of the world, there are obviously times when there are coincidences in ambitions and policies. From the viewpoint of the political support the Cubans can provide the Soviets in Third World—especially Latin American—forums, Moscow's investment in Havana has been paying off.

The Soviets now have celations with 14 Latin American countries: Atpentina, Bolivia, Brazil, Colombia, Costa Rica, Cuba. Ecuador, Guyana. Jamaica, Mesko, Peru, Surinam, Trinidad and Tobago, Uruguay, and Venezuela.



Economic Objectives

Soviet economic relations with Latin America have expanded markedly in recent years, Mutual commercial exchanges still are not a significant portion of the overall trade of the USSR or of Latin America's global trade. The Soviet market, however, has become important for some major countries—the USSR, for example, was Argentina's largest importer in 1975 and is currently Brazil's fifth largest market. Between 1969 and 1976, Soviet economic credits extended to the area, exclusive of Cuba, rose from \$140 million to over \$500 million. This upsurge reflected a Soviet desire to expand exports in the face of burgeoning deficits within the area, Latin American drawings on these credits to the end of 1976, however, amounted to less than \$142 million because of the private sector's unwillingness to make purchases from the USSR. Although Soviet deficits have continued to grow—the deficit in 1975 approached \$900 million—trade continues to dominate Soviet relations with Latin America.

The Soviets also have signed a number of technical and scientific agreements with various Latin American countries. Mexico has signed contracts with the Soviet-dominated Council for Mutual Economic Assistance (CEMA) for cooperation in agriculture, industrial technology, and science, and Jamaica and Guyana are seeking observer status in the organization. While Soviet economic trade and aid is minuscule in comparison with Moscow's total effort in the less developed countries, there is a pronounced tendency among the Latin American nations to diversify their trade and economic relations. A continuation of this tendency, as well as the growing Latin receptivity to Soviet purchases, will ultimately lead to increases in Soviet commercial activity in the area.

Military Objectives

Moscow has long called for the independence of the Latin American armed forces from US influence and armaments. The Soviets see the Pentagon's influence as all-pervasive in the various Latin American military establishments. Moscow views the current squabble between the US and the Latin American military over the human rights issue and the renunciation by many of the Latin countries of US military assistance programs as an exploitable situation. The Soviet press in recent weeks, in fact, has played up the "worsening relationship" between the US and the Latin militaries.

In the meantime, the Soviets have been offering themselves as an alternative way applier. A few Latin American military delegations have traveled to Moscow to inspect military equipment. Peru, however, has been the only Latin American country to buy Soviet hardware. Its purchases include JSU-22 fighter-hombers, MH-8 helicopters, T-55 medium tanks, and antiaircraft artillery as well as SA-3 and SA-7 surface-to-air missiles. Moscow also has 35 military advisers in Peru assisting in training and maintenance of the Soviet equipment.

The USSR has recently offered to sell military equipment to Argentina, Brazil, Colombia, and Venezuela. Ecuador is also reportedly interested in purchasing Soviet interceptors, but military leaders in Quito are hopeful that the threat of another Soviet arms client in Latin America will force Washington to come up with an arms deal. It is likely that most of the Latin nations will continue to look to France, West Germany, the United Kingdom, and Israel as the major weapons suppliers, Many Latin American countries may be enticed by Moscow's attractive arms offers, but few will probably actually sign any military contracts.

From the Soviet viewpoint, the most important espect of their military equipment sales to Latin America is the incursion into the previously exclusive Western market. Soviet technicians and advisers may introduce some political leverage. In the case of Peru, however, their presence so far has not led to substantial political gains. In fact, last year Lima became more moderate even as Soviet military assistance increased.

Cultural Objectives

Soviet cultural exchanges with Latin America are designed to win sympathy and friends and to prove, as Lenin once said, that "the Bolsheviks are not such terrible barbarians as they are supposed to be." The Soviets have repeatedly claimed that US culture has been designed for the privileged minority, whereas theirs is universal and popular. Student exchanges are one way to lessen Latin fear and distrust. The long-range effectiveness of the cultural exchange program cannot be determined, but an improving political, economic, and cultural atmosphere will certainly increase Soviet acceptance in the area.

Organizational Presence in Latin America

Soviet Diplomatic Presence in Latin America

					200	
	Total		Trade Mission	KGB 1 (known or suspect)	GRU s (known or suspect)	
Argentina	51		Γ			٦
Bolivia	tec	us about 150 hnical aid sonnel)	1			
Brazil	tec	us about 22 hnical aid sonnel)				
Chile	3 (U	N/FCLA)				
Colombia	40	8.				
Costa Rica	27					
Ecuador	38					
Guyana	16					
Mexico	tech	us about 15 hnical aid sonnel)				
Panama	sent repr	official repre- tation: 2 Tass resentatives l 6 cultural hange people)				
Peru		s 35 military				
Trinidad	1 (live	es in Caracas)	1			
Uniguay	38		1			1
Venezuela	17		_		_	7

¹ Committee for State Security.

²The military's Main Intelligence Directorate



The Latin View

Historically, the Soviet Union has been regarded as a kind of pariah by most Latin Americans. The Luso-Hispanic world has little in common with Russia. Early Soviet attempts to subvert a number of Latin governments reinforced this image. The world situation has changed, however, and many governments that are interested in finding new sources of credits and technology, as well as new markets, have overcome their deep-rooted fear and repugnance of communism. The Argentines, for example, do not link the guerrillas opersting in their country with the pro-Soviet communists as they might have in the past. (Indeed, they are not associated.) The military government says that it is willing to have diplomatic relations and trade with everyone, regardless of political ideology.

Unquestionably, detente has also added to Soviet respectability. The Latin American argument is that if the US can have cordial relations with Moscow, then surely they can follow suit. In addition, the military and economic development of the Soviet Union is admired by many Latins and viewed as a potential counterweight to US influence.

One cannot underestimate the role of Cuba in this equation, Latin American nationalism, of course, was present before Fidel Castro appeared on the scene. The Cuban leader did prove, however, that it was possible to thumb one's nose at Washington and still have an alternative source of economic and military assistance. This picture has appealed particularly to several other nations in the Caribbean. Conversely, the enormous cost of economic assistance to Cuba may have sobered Soviet pretensions to aid other Latin American countries trying to disassociate from the US, (The Soviets frequently cautioned Allende, in fact, against cutting himself off economically from the West.) Cuba still remains, however, as a symbol of Soviet support against "US imperialism." As Latin American countries increase trade and diplomatic relations with Cuba, the standing of the Soviet Union in the area will inevitably be enhanced.

This does not mean that economic and political relations between the USSR and Latin America have been completely friendly and smooth. There is continuing suspicion among the Latin American nations of Soviet intentions. Most of the governments maintain a tight watch on Soviet diplomats, and any suggestion of interference in domestic matters is quickly rebuffed. In their commercial relations with Latin America, despite the prospect of lucrative terms, the Soviets have been humpered by a lingering reputation for exporting overpriced and inferior goods.

The oven/ding factor in all aspects of Latin-Soviet relations has been the appeal of the USSR as an alternative economic partner and military supplier to the US. The Latins are becoming more receptive to Soviet aid offers because of their balance-of-payments difficulties. The Soviets, in turn, have encouraged sales by concentrating their efforts on areas of high priority such as energy—they have been promoting low-cost funding for hydroelectric projects in Argentina, Brazil, Colombia, Costa Rica, and Guyana.

As for military equipment sales, even though the utilization of Soviet equipment would probably pose logistic and technical problems, many Latin countries may find Soviet military aid offers difficult to turn down in the future. The US Government's refusal to sell certain military equipment to the Latins has been an important factor, but the most significant problem has been the US stance on the human rights issue. Brazil, El Salvador, Guatemala, Argentina, Chile, and Uruguay have already rejected further US military assistance in protest of Washington's "interference in internal affairs." Their desire for new military equipment will lead them to buy from someone, and attractive Soviet offers may generate sales.

In the political sphere, many Latins are probably appreciative of the Soviets' pro-Third World stance at international forums on many issues of the north-south dialogue. Again, as in the economic and military cases, the USSR is being used by the Latins to balance off the US. The Latin reaction to the human rights issue is also important politically because many nations of the area-especially those in the southern cone-already felt neglected by Washington. This issue will increase their sense of isolation from and irritation with the US. The USSR could be the final beneficiary.

Soviet Prospects in Latin America

The Latin American world, with the major exception in Cuba, has not been very susceptible to Soviet overtures over the past 50 years. The people have been less receptive to propaganda than Soviet leaders expected, and the major social movements of the area have been national rather than international. In the Soviet view, however, economic "contradictions" in the industrially developed nations inevitably lead to "contradictions" between them and the less developed states. Moscow, therefore, expects an ultimate intensification in the anti-imperialist national liberation struggle throughout the Third World, including Latin America.

The Soviets appear to be undecided on how to go about exploiting the opportuniti-s presented by this economic crisis. In the past, they have worked through the various local communist parties; they have provided moral support to rural guerrillas; they have increased state-to-state relations; and they are now trying to establish military equipment llaisons with the various Latin American military establishments, Moscow's constant objective in all this is the erosion of 'JS economic and political influence.

Despite its occasional setbacks, Moscow seems to believe that Latin America's economic and political nationalism—particularly its anti-US aspects—will persist and deepen. The Soviets hope that as this occurs their own trade and diplomatic relations with Latin America will continue to grow and that the USSR will become a significant economic force in the area. This economic involvement will do away once and for all with the pariah image, which more than anything else has isolated the Soviets from the hemisphere.

In the final analysis, the key factor governing the extent of the Soviet-Latin American relationship is the US. The Soviet Union still cannot influence Latin American affairs as much as it can exploit economic and political conditions and US policies. So long as the US fails to develop a consistent and acceptable policy for the region, political opportunism and tactical flexibility will work to Moscow's advantage and further erode US influence.

The author of this paper is Comments and queries are welcome and should be directed to Sacret

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Mexico

Approximately 20 bombs exploded yesterday in Mexico City, Guadalajara, and Oaxaca, causing extensive damage and one major fire but apparently no deaths. Most of the bombs exploded in government agencies and commercial offices having US and multinetional affiliations. Several groups have claimed credit for the bombings,

The bombings were

apparently planned to coincide with nationwice independence day feativities and other associated political gatherings.

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MEXICO UNDER JOSE LOPEZ PORTILLO:

PROBLEMS AND PROSPECTS FOR

US-MEXICAN RELATIONS

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INTRODUCTION AND SUMMARY

When NIE 81-1-76, Mexico Under Jose Lopez Portillo: Problems and Prospects for US-Mexican Relations, was issued last December, the Intelligence Community agreed to take another reading of the Mexican situation after the policies of Lopez Portillo, who assumed the presidency of Mexico on 1 December 1976, became more fully known. This paper aims to do that. The long-term outlook for Mexico will be examined in greater depth in an NIE to be written next year upon completion of basic research now under way within the Community.

Starting with his masterful inaugural address, Lopez Portillo, who presides over an authoritarian political structure, has established a didactic leadership style and projected a presidential bearing that have commanded the respect of the Mexican people. He also has proven to be a capable politician in his dealings with labor, business, and other interest groups. He has emphasized organization in restructuring the administrative machinery of the executive branch, and the same orderly approach apparently permeates his personal governing style. In all, the new President's approach has been rather low keyed, when compared to the flambuoyant style of his predecessor.

Lopez Portillo has calmed the crisis of confidence brought on by the policies, rhetoric, and erratic action of the Echeverria administration and has made considerable progress toward stabilizing the economy after the tumultuous events of 1976. As was anticipated, he has placed financial stabilization and adherence to Mexico's stabilization agreement with the International Monetary Fund (IMF) well ahead of economic expansion and employment creation. Lopez Portillo emphasized in his 1 September state of the union address that he would not be tempted into premature reflation of the economy; a strong stand, since Mexico faces a fall in real per capita income for the second consecutive year and increasing unemployment and underemployment that could over time lead to social unrest.

The longer term outlook for the Mexican economy is brightened because of vast oil reserves. Lopez Portillo has approved an ambitious investment program for Pemex, the state oil monopoly. The program, as stated, does not aim at maximizing output, however, and may prove actually to be relatively conservative. We believe that the program goals will be exceeded and that by 1980 production and export levels will be on the order of 2.2 million barrels per day and 1.2 million barrels per day, respectively. Such rates of exportation would allow



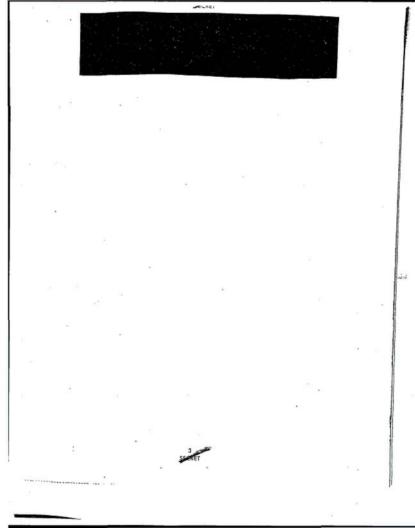
Mexico to achieve a substantial current account surplus. By the end of Lopez Portillo's term in 1982, Mexico could be well on the way to becoming one of the world's major oil exporters.

Although massive exploitation of Mexico's oil reserves cannot resolve the country's serious social problems, it can provide revenues to support the government's proposed attack on these problems. The challenge facing the government in implementing social and economic change should not be underestimated. We believe Lopez Portillo can prevent Mexico's social problems from becoming unmanageable during his term of office. His government should be able to maintain its authority through the traditional methods of coercion and cooptation.

Lopez Portillo is placing great emphasis on relations with the United States and consequently is not renewing the Third World rhetoric of Echeverria. A bilateral consultative mechanism to bring relations between the United States and Mexico into focus at the higher levels of government was established in February. The mechanism provides a medium for dialogue among policymakers and can smooth the conduct of relations between both countries. It allows for a dialogue to be developed over such issues as Mexico's investment laws before they reach the confrontational level. Lopez Portillo, however, has expressed disappointment with the mechanism because of what he sees as the incapacity of the mechanism to link bilateral issues and to facilitate immediate concessions.

Although foreign investors are optimistic over the potential for investment in Mexico, they are concerned that the government has not yet taken any action encouraging them and has, in fact, adopted some additional protective measures which may discourage renewed investment in Mexico. They are especially concerned over a new law regulating the automobile industry—which may portend similar laws for other industries.





I. MEXICO UNDER LOPEZ PORTILLO

A. Domestic Political and Social Palicies

- I. Jose Lopez Portillo began his sis-year presidential term on 1 December 1977 at a time when the management of the Mexican economy presented more serious short-term problems than had been faced by any other incoming president in recent years. After the Turor and confusion that accompanied the final days of the Echeverria administration and the near euphoris that greeted his inauguration, logee Portillo has proceeded to solidify his power, improve government efficiency, and undertake the protracted and difficult task of rebuilding Mexico's economy.
- 2. The President has followed the characteristic Mexican pattern of striving to consolidate his political control by appointing a Cabinet of personal associates and by establishing independence from his predecessor. We believe Lopez Portillo is completely in command of Mexico's governmental and political machinery, and any belief that former President Echeveria remains as a power behind the throne is a misperception.

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- 3. In light of Mexico's ever-present yet potentially serious pressures, Lopez Portillo has worked to maintain firm internal security. He quelled disturbances at several universities-including Oaxaca and the huge national university, UNAM-by the judicious application of persuasion and force. The strike at UNAM was the most serious direct challenge his leadership has yet faced, and his ability to resolve it while avoiding a backlash from the left was impressive. The land dispute in Sonora, which arose when private farmers contested Echeverria's expropriation last year of 100,000 hectares of their farmland, has been settled along lines that should maintain Lopez Portillo's revolutionary credentials without further encouraging land invasions. The most active terrorist groups-the 23rd of September Communist League and the People's Revolutionary Armed Forces-still have the potential for spectacular actions, but their total numbers are small and the government is maintaining constant pressure.
- The spectacular wave of terrorist bombings in September does not indicate that the government is

losing control. Although the bombings do demonstrate an impressive capability to coordinate and carry out a large operation, this is not a new development and does not capresent a serious threat to the government's

power.

5. The Lopez Portillo administration is giving strong support to a serious and far-reaching family planning program. Only recently have Mexican governments recognized the severity of the problem created by having one of the highest population growth rates in the world. The Lopez Portillo plan optimistically aims at reducing the population growth rate from 3.4 percent to 2.5 percent annually by 1982. In contrast to previous government efforts the \$250 million program is to emphasize limiting family size through contraception rather than improving maternal and child health. The program will be difficult to implement. Even if it succeeds in reducing the birth rate, the past baby boom guarantees that the labor force will grow at an average 3.4 percent through 1985.

B. Economic Policies

- 6. Lopez Portillo has calmed the crisis of confidence brought on by the policies, rhetoric, and erratic action of the Echeverria administration and has made considerable progress toward stabilizing the economy after the tumultuous events of 1976. As was anticipated, he has placed financial stabilization and adherence to Mexico's stabilization agreement with the International Monetary Fund (IMF) well ahead of economic expansion and employment creation.
- 7. Upon assuming office, Lopez Portillo instituted a major reorganization of the executive branch to reapportion administrative responsibilities among the Cabinet secretariats along more rational and efficient lines. Specific policy duties, especially in economic affairs, were consolidated in individual ministries to eliminate duplication and bureaucratic competition. A



1-percent increase in nonagricultural wages above productivity gains adds almost one-third percentage point to the inflation rate.

- Secretariat of Planning and Budget in the United States) was created, and the roughly 800 government enterprises were placed under the supervision of appropriate Cablinet heads to make them more accountable. The large scale of the reorganization necessarily means that it will take time to iron out. Our preliminary assessment is that it is improving administrative efficiency and control, but that efforts to reduce the number of federal jobs subject to appointment, which was also part of the reform, will not succeed.
- 8. To help chart his economic course, Lopez Portillo has created an economic Cabinet under his personal chairmanship, which raises the hope that his government's economic policy will be planned and executed in a more coherent fashion. The President listens to advice and suggestions from his economic Cabinet, but in the actual policymaking process, no Cabinet member probably has as much influence as Rafael Conzalez Izquierdo or Jose Antonio Ugarte, the President's private economic advisers. Lopez Portillo has moved deliberately through the profuse and often conflicting advice he has been receiving, seeking to avoid the rash implementation of ill-conceived policies characteristic of the Echeverria administration. At times this has led to reports that the President has difficulty understanding complex economic issues and in making decisions.
- 9. The great weight being given by Mexican authorities to meeting the IMF stabilization agreements reflects the influence of Izquierdo, Ugarte, and others calling for severe anti-inflationary measures and the realization that failure to implement the agreement would drastically reduce Mexico's access to foreign commercial credit. Mexico, so far, has stayed within the limit on foreign public borrowing and has more than met the monetary goals prescribed under the standard IMF deflationary package for overheated economies. The budget deficit probably will exceed the IMF target (in part because of increased spending on oil development) but will be below the deficit projected in the 1977 budget-a major accomplishment, considering recent deficits have exceeded the projected budget deficit by 50 to 130 percent.
- 10. Loper Portillo has been most successful in trimming average wage increases from the inflated levels under Echeverria to about 10 percent this year. This has been indispensable for the government's economic stabilization program.

- 11. In imposing wage restraint, Lopez Portillo has worked closely with labor czar Fidel Velasquez, whose cooperation has been crucial in maintaining labor discipline. Velasquez, the 77-year-old leader of the Confederation of Mexican Workers (CTM), has dominated labor politics for 40 years. With respect to long-term political influence, "Don Fidel" is often described as the most durable man in Mexican politics.
- 12. Austere wage and financial measures initiated by Lopez Portillo have substantially reduced inflation. but at the cost of prolonging last fall's severe economic downturn. Although the sharp drops in real GDP and industrial production that followed the floating of the peso apparently bottomed out in the first quarter, demand remains depressed. The matching of last year's 2-percent increase in real CDP, far below the rate necessary to absorb all the new entrants to the labor force, is probably the best that can be hoped for. If the government held its deficit to the IMF target. the CIA's econometric model of the Mexican economy indicates that the inflation rate for the year would have been shaved only 4 percentage points from the 28 percent we currently estimate, while the required reduction in government spending would have cut the real economic growth rate to zero or -.5 percent.
- 13. Economic recession coupled with the depreciation of the peso has resulted in a dramatic improvement in Mexico's current account deficit. The deficit should be reduced by about 50 percent to \$1.6 billion which along with restrictions on government borrowing, will allow Mexico to stay within the \$3 billion IMF limit on net public sector (including Pemex) foreign borrowing while building up foreign exchange reserver.
- 14. Lopez Portillo is discouraged by the failure of domestic investment to pick up, as he was counting on this sector to provide the stimulus for economic growth. While Lopez Fortillo has cleared away much of the bad feeling between the government and the private sector, business investment response is understandably slow. Companies are financially strapped by the large increase in the peso cost of servicing their dollar debt, and because "dollarization" of the economy has restricted credit even beyond what the government had planned. Presidential echotation will play a role in reviving investment; in response to the President's pleas for increased private investment as a quid pro quo for labor's wage restraint, business quid pro quo for labor's wage restraint, business

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presented a 10-point lob creation program just before the President's I September state of the union address. We believe that much of this program will be implemented. Fearful of new government intervention, the Monterrey industrialist group has warned that the political risks of not investing outweigh the economic risks of investing.

C. Oil Policy

15. Lopez Portillo and his chief advisers are convinced that increased petroleum and natural gas exports are necessary and have approved an ambitious investment program for Pemex:

normal program for remed

16. Mexico could be producing 2.2 million barrels per 139 in 1980 and more than 3.5 million barrels per 139 in 1980 and more than 3.5 million barrels per day in 1982. This would allow oil exports of 1.2 million barrels in 1980 and 2.2 million barrels per day in 1982. Permer's 315.1 billion development plan for 1977-82, although calling for lower production levels, is extremely ambitious but attainable. Permex seeks to raise crude oil and gas production by 1982 to 2.24 million barrels per day and 3.65 billion cubic feet per day.

Pennex's own estimate for production in 1982 is 'ery conservative, in February' Mexico exceeded its daily production target for 1977. If current drilling success rates and average well production flows continue, the 477 development wells to be drilled onshore in the Reforma area alone will yield more than 2 million barrels per day.

17. In addition to the development plan, Lopez Portillo has approved the construction of 1,200-kilometer, 46-inch pipeline to move natural gas from the Reforma area to the US border. The line, which will take two to three years to complete once construction begins, will have an eventual capacity of 2.7 billion cubic feet per day. When the line initially comes into operation, possibly as early as 1950, Mexico will ship 1 billion cubic feet of gas per day to the United States by 1982 this would rise to 2 billion cubic feet per day. Six US companies have already signed up for this gas, with only the price yet to be determined. The Mexicans want to price the gas at the equivalent

of Number 2 fuel oil landed in New York—much higher than the price acceptable to the US Government. The Mexicans see their bargaining position improved as negotiations are stretched out.

18. Pemes has the technological know-how and trained personnel to handle almost all phases of oil industry operations. Mexico is beginning to patent its inventions, especially in the refining area, and is supplying technical assistance to other countries. US firms continue to provide much of the equipment and technology employed by Pemes, but Pemes personnel perform all tasks in a competent manner. There is an element in Pemes and other sectors of Mexico which opposes rapid oil and gas development. However, this is more a political firstiant than a political obstacle.



20. The major potential constraint on Mexico's ability to carry out the Pemer development program and construct the gas pipeline is financial, if Pemer and construct the gas pipeline is financial, if Pemer borrowing continues to fall under the IMF agreement. Pemex estimates that it will need to obtain half of the funds for its investment expenditures from foreign sources. Mexico, for the first time, is willing to commit gas exports to foreign companies in exchange for development financing and reportedly may be considering paying Japanese pipeline suppliers in crude oil exports after 1980. A potential constraint on Mexico's ability to construct the gas pipeline is the need for US Government approval of the Memorandum of Intentions signed in August with six US gas companies.





D. Foreign Policies

22. Lopez Portillo is placing primary foreign policy emphasis on relations with the United States and consequently is not striving for the leadership role in international affairs sought by former President Echeverria. This appears to be contributing to a reduction in confrontational tactics by Mexican delegates at international forum, but does not necessarily signal a reversal of Mexico's stand on key issues.

In truth, Mexico's

In truth, Mexico's basic national interests have not changed much under Lopez Portillo.

- 23. A bilateral consultative mechanism to bring relations between the United States and Mexico into focus at the higher levels of government and to provide a channel for the coordination of the operations of the various US and Mexican agencies involved was agreed to in principle by the presidents of the two countries in February 1977. A May meeting between Secretaries Vance and Roel established three working groups on political, economic, and social issues. By the end of August the economic and social working groups had bold a full round of meetings.
- 24. The meetings have surfaced mutual problems and have attempted to design steps for pursuing solutions. The discussions deal principally with bilateral topics (for example, trade, tourism, and export of Mexican oil and gas to the United States), but multilateral topics (for example, the MTN) are also discussed. Moreover, they range from very specific measures, such as ways to liberalize visa requirements, to major policy questions, such as the problem of undocumented Mexican workers. Even without the consultative mechanism, existing agencies on both sides would probably have discussed the various issues from time to time. The mechanism provides, however, a medium for dialogue among senior policymakers, as distinguished from operational technicians, and can smooth the conduct of relationships that are increasingly important to both countries.

II. OUTLOOK FOR MEXICO UNDER LOPEZ PORTILLO

A. Political Prospects

25. The political reform program announced by Lopez Portillo in his 1 September 1977 state of the union address is not likely to diminish the power of the Institutional Revolutionary Party (PRI). The key

elements of the program are liberalized registration of political parties, greater representation for the opposition in Congress, and guarantees for minority party participation in local elections. Lopez Portillo's prime motive appears to be to channel political opposition into the present system in order to decreate the incentives for political violences.

26. The program has apparently run into stiff opposition from conservative elements within the administration and the PRI, however. These elements fear that even this limited program could eventually undermine the PRI's 50-year domination of Mexican politics. Although their fears are probably groundless in this instance, a more thorough program—such as has been occasionally demanded by elements of the Mexican middle class—could reduce the President's ability to stifle or deflect pressure through the traditional methods of ocercion and cooptation and might usher in a period of political unrest.



B. Social Prospects

28. Many of the problems facing Lopez Portillo are the enormous and intractable issues that faced his predecessor—skyrocketing population growth, a staggering unemployment rate, and an ever-widening gap between rich and poor. These problems are formidable, and the most deep rooted of them cannot be solved within the term of one administration. Not only will the government have a difficult time in obtaining the goals of its family planning program, but it would still take until the middle of the next century for Mexico's population to level off at about 110 million if the replacement rate of fertility were achieved by 1985. However, Mexico's potential for growth and its natural resource endowment should, with prudent



policies and a favorable international economic climate, keep these problems within manageable limits.

C. Economic Prospects

percent.

29. Lopez Portillo realized that rapid development of Mexico's petroleum reserves provides an opportunity for the country to tackle its economic and social problems and to implement a new development model that would provide growth with improved income distribution. Earnings from oil exports can make a major contribution toward correcting Mexico's international financial problem and helping it back on the path of rapid economic growth within a year or two. projections for oil exports, it Civen is possible to estimate Mexico's current account balance for 1978-80 under alternative scenarios for real economic growth. Oil exports under the Pemex plan would allow a substantial narrowing in the current account deficit in 1979 and 1980 if economic growth ranges between 6 percent and 10 percent annually, and a shift into surplus if growth is held to 4

30. The outlook for Mexico's financial position is even brighter than these projections Indicate, since the estimated export levels do not reflect gas sales to the United States, which could start two to three years after construction on the gas pipeline is initiated. A sharper increase than the conservatively projected 6-percent increase in oil prices used above would, of course, also speed improvement in the current account balance.

31. The administration currently is attempting to devise a new development strategy that would be export oriented and would provide for better income distribution. The challenge facing the government in implementing a strategy to improve income distribution should not be underestimated. Lopez Portillo does, however, appear to be effective at bringing disparate groups together and may ultimately be able to bring about a tax reform that would moderately improve income distribution. A radical program would hit the vested interests of almost all politically powerful groups in Mexico, and it is highly unlikely that Lopez Portillo would support such a politically risky effort. One advantage of the low-income base from which the distribution policy must proceed is that a relatively modest redistribution of earnings on the margin could substantially increase absolute

income levels of certain segments of the poor, thereby reducing social tensions.

32. Lopez Portillo is working to defuse the land tenure issue. In his state of the union address, the President strongly reemphasized that land redistribution no longer can fulfill agricultural workers aspirations for a more equitable income distribution. Instead, he suggested rural labor legislation to improve agricultural wages. We believe that national land reform ideology will not dilute Lopez Portillo's basic determination to increase output, although small land redistributions may be continued in order to cement the President's revolutionary credentials and to buy off incipient peasant leaders and maintain peace in the countryside. Structural problems, however, will likely prevent substantial acceleration of agricultural output growth during the next five years.

III. IMPACT ON THE UNITED STATES

A. Outlook for US-Mexican Relations

33. The process of consultation set up by the bilateral mechanism should help illuminate the dynamics of policymaking on both sides of the border, especially the complex decisionmaking process of the



B. Bilateral Issues

Illegal Immigration

36. In coming months, the Loper Portillo government will continue to be highly concerned over the problem of undocumented aliens, and this issue—depending on US congressional action—may bring an end to the honeymoon that has existed in bilateral relations since the change in presidents.



Narcotics

38. The Lopez Portillo administration has been cooperating in the herbicide eradjication program, and will probably continue to do so. We have indications that the program has reduced the amount of heroin produced in Mexico. Eradication of optium poppies does not bring progressive successes; however, failure to spray during one cycle of the growing season would wipe out previous gains. It is not a long-range solution.



Foreign Investment

40. Mexicanization, although administered in a nondiscriminatory manner, continues to uffeet US private investment adversely. Indeed, a new law regulating the automobile industry affirms the nationalistic thrust of Mexican policy. The government has stated that it will not change its foreign investment laws; we believe, however, that Lopez Portillo recognizes the need for selected foreign investment and will reduce the red tape associated with the laws. He has stressed that, while Mexico welcomes foreign investment and indeed needs it, such investment must be selective and contribute directly to Mexico's development by creating jobs and earning foreign exchange.

41. Officials of multinational corporations are encouraged by the government's attitude, but they are concerned, as they have seen no action—especially with regard to modification of the Patents and Trademark Law—that encourages them to tenew investment in Mexico. Foreign investors are concerned that Mexican investment laws are being used to force foreign-owned companies to increase exports and investment levels in Mexico. Moreover, foreign investors will be carefully assessing the climate for financial stability, growth potentials, and continued freedom to remit profits. Though there are reports of proposed new and significant US industrial investments, it seems likely that foreign direct investors will remain cautious for the next year or so.

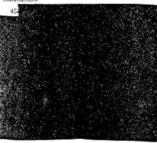
Oil

42. Although, as stated above, Lopez Portillo appears to desire a rapid and orderly expansion of Mexican oil production, such a result is by no means assured. Technical and equipment limitations could create obstacles to the government's carrying out its development program expeditiously. Provided the fact and appearance of Mexican sovereignty were protected. US composites might find acceptability for

SARRET

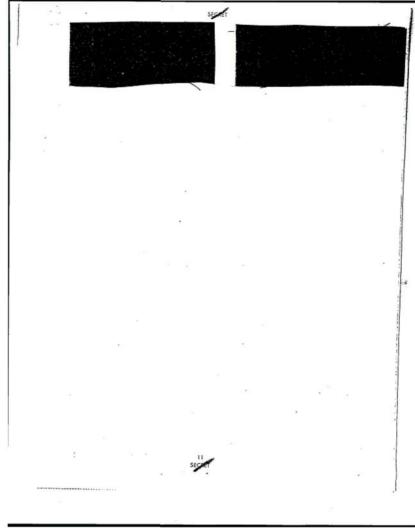
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Imaginative proposals involving provision of equipment and technical assistance—particularly for offshore development—and possibly construction of such infrastructure facilities as coastal storage and loading installations



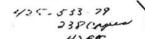
MEXICO: IMPORTANT ADVISERS TO

The President makes all important decisions, and his support is absolutely necessary for the success of any program or policy. The keystone of the Mexican system is personalism, as it functions through interconnecting vertical chains of patron-client relationships.



Title:	INR: THREE TERRORISTS DEAD IN MEXICO CITY SHOOTOUT	
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Release Date:	6/19/2000	
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International Narcotics Review

28 February 1979

APPROVED FOR RELEASE BATE: JUN 2000



Three Terrorists Dead in Mexico City Shootout

Three members of the 23rd of September Communist League were killed by police on 5 January in a gun battle in Mexico City. Slain were Antonio Solis Rodriguez, a leader of one of the League's commando units, and two of his colleagues.

A year ago the 23rd of September League was responsible for the murder of American engineer Mitchell Andreski Andreski, who was inspecting a building site in Mexico City, was killed when he turned his back on a group of League members who had started insulting him.

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Title:	MEXICO-OUBA: THE COURSE OF RELATIONS	
Abstract:		
Pagest	0010	
Pub Date:	6/5/1979	
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Keywords:	MEXICO (OUBA) INDEPENDENCE (CASTRO FIDEL (VISIT (COZUMEL) PORTILLO LOPEZ	
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Release Decision:	RIPPUB	
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NOF RN/NOCONTRACT

CENTRAL INTELLIGENCE AGENCY NATIONAL FOREIGN ASSESSMENT CENTER

5 June 1979

MEMORANDUM

MEXICO-CUBA: THE COURSE OF RELATIONS

Summary

The relationship between Mexico and Cuba continues to be mutually respectful and occasionally warm, but more a matter of form than substance. It continues to serve the domestic and international political needs of the two countries, but has little effect on their more concrete economic needs. Through Mexico's long association with Castro, President Loper Portillo enhances his political standing with the left at home and embellishes his image of independence from the US. For Castro, association with Bexico boosts his regime's Third World and hemispherical epitimacy.

The purpose of the 17-18 May get-together at Cozumel was evidently to give the two leaders a chance to meet and to bolster Castro's image prior to the nonaligned summit in September. The joint communique indicated no major



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substantive agreements. It mentioned agricultural exchanges, sugar industry cooperation, and cultural and educational interchanges as well as support for the new international economic order, disarmament, and standard international principles. The only notable departure from the usual pattern was the call for an end to the economic blockade of Cuba and an indirect reference to the elimination of the US naval base at Quantanamo Pay.

Lopez Portillo's recent cabinet changes were motivated by domestic considerations, but were probably timed so that the Cuban leader's visit would mute expected dissatisfaction from the left.

Mexico's break in relations with Nicaragua was probably encouraged by Castro, but Lopez Portillo is not likely to wage on his own a continuing international campaign against the Somoza government. Castro invited Lopez Portillo to attend the nonaligned summit in Havana, and the Mexican President might accept.

The Summit: Mexico

Given the history of Mexico's relations with Cuba, (see Annex) it was probably inevitable that the two leaders would meet, and reasonable to expect that they would be attracted to each other. The cultural, historical, and emotional ties--from which Castro drew frequent rhetorical inspiration--are significant and probably chiefly responsible for the successful personal dynamics of the summit.

It appears that both men vanted the meeting, and both were apparently caught up in the attendant emotion. Loper Portillo's admiration for Castro as one of the "prominent personalities of this century" appears genuine although, as a self-proclaimed pragmatist, be recognizes there are few prospects for significant expansion of relations beyond solidarity on international issues. Lopez Portillo probably views Cuba essentially as a suitor, albeit one with a certain exotic charm.

Although Lopez Fortillo praised Castro personally, he avoided commenting on the Cuban political system. This became more noticeable when, during Costa Rican President Carazo's visit two days later, Lopez Portillo lauded Costa Rica's liberal democracy as "the system in which we bolieve."

Castro held the spotlight most of the time, which probably suited Lopez Portillo, who expected to profit more from the fact of the visit than from the specifics. The summit reaffirmed Mexico's independence from US influence and boosted Lopez Portillo's standing with leftists at home just six weeks before the first national election test of his party under the new political reform program. Not coincidentally, he invited leaders of the four opposition parties of the left to the Corumel summit.

In this same sense, the Castro visit was apparently utilized to mute an expected outcry from the left over the removal of Secretary of Government Reyes Herolas.

who

President's reasons for simultaneously removing two other cabinet ministers appear unrelated to the Castro visit or the elections, except that the departure of more conservative Foreign Secretary Roel--probably simply for deficient performance--would be seen as balancing somewhat Reyes' removal.

The breaking of relations with Nicaragua two days after Castro's departure tilted that bulance more toward

the left. Lopez Portillo had probably been condering the break for some time, but Castro—who bitterly denounced somoza at the Cozumel summit—may have been the impetus to action.

Lopez Portillo may have felt that such a dramatic step as breaking relations was needed to prod the US into acting forcefully against Somoza; the Mexican President has said in the past that the US must resolve the Nicaraguan crisis. At the same time, Mexico probably remains reluctant to be seen acting in concert with the US--lacking other Latin American involvement--on a matter that could get messay.

It is unlikely that Lopez Portillo expected to use the Cozumel meeting to budge Castro on the Treaty of Tlateloleo, which prohibits nuclear weapons in Latin America. In view of Lopez Portillo's parallel interest in conventional arms restraint, however, he may have felt some concern over Cuban acquisition of Soviet Mig 23s.last year.

Although Mexican oil sales to Cuba reportedly were discussed in general terms, the long-rumored quadrilateral oil deal-Mexican delivery of crude to Cuba on Soviet account in exchange for Soviet deliveries to Mexico's European customers, all in order to save on transportation costs-was apparently not consummated. In fact, Mexico would have to work out details with the USSR, not Cuba, and for the past year at least none of the parties concerned has seemed particularly cuthusiastic about the matter.

The Summit: Cuba

From the Cuban perspective, politics—rather than economics—provided the rationale for the trip. No agenda had been prepared for the talks, and over half of Castro's 29-hour stay was taken up by ceremonial functions, spearfishing, and sightseeing. The two sides would seem to have had time to do little more than agree on the wording of the final communique.



Although initially concerned that Lopez Portillo would pursue a foreign policy more closely aligned with the US than his predecessor, Luis Echeverries, the Castro regime has been pleasantly surprized by his independent attitude toward Washington. Enceuraged by wimat Cuba considered an unsuccessful trip by President Carter to Mexico in February, and by Mexico's subsequent willingness to support Cuba's bid for a seat on the UN Security Council next year, Cartro probably looked at the summit in part as an opportunity to try to exacerbate irritants in Merican-US relations.

Castro took advantage of his visit, for example, to blast the US for its treatment of illegal Mexican immigrants. He also made a point of reiterating Cuba's support "for the wise, patriotic, and courageous Mexican oil policy, which has decided to subordinate the energy wealth to national interests and not to industrialized capitalist nations."

The focus on the US naval house at Guantanamo Bay and the US economic "blockade" in both Castro's comments to the press and the final communique is a solid indication that Cuba intends to belabor the US on these two issues at the nonaligned summit in Havana in September and most likely later-at the UN General Assembly. Castro apparently seed little chance of any significant improvement in relations with Washington until after the 1980 elections and probably believes Cuban pressure on these points will cost him little while keeping the US on the defensive.

Castro clearly enjoyed the brief respite that his visit provided from the mounting problems at home, but he undoubtedly would have preferred the greater public exposure that a trip to Mexico City would have ensured. The publicity that accompanied the trips to Mexico of Pope John Paul II, President Carter, and French President Giscard D'Estaing probably suggested that a road show of his own would enhance Cuba's international image at a time when many Third World leaders are debating the advisability of accepting his invitation to attend the nonaligned summit. He presumably settled for Cozumel on the advice of his security officials.

while the summit proved useful to Castro in allowing him to establish a personal relationship with Lopez Portillo, the Cubans were doubtless disquieted by the Mexican President's decision to oust Secretary of Government Reyes Heroles and Foreig. Secretary Roel on the eve of the visit. Reyes, especially, had been a valuable friend of the Cubans, and Roel reportedly was instrumental in pushing for the summit.

Havana probably expected little in the way of substantive bilateral economic cooperation. Havana realizes that Mexico offers a very limited market for Cuban exports -\$2.4 million in 1977—given Mexican self-sufficiency in sugar and Cuba's prior commitment of most of its other saleable commodities. On the import side, Cuba's secious hard currency shortage and the limited availability of Mexican credits argue against any major increase in Cuban purchases from Mexico beyond the present \$30 million annual level. The limited potential for bilateral trade is underscored in the summit's communiqu's, which placed heavy emphasis on potential economic cooperation.

Prospects

The basic relationship between Mexico and Cuba in not expected to change significantly in the immediato future. There may be greater solidarity on some international issues, but this will be primarily symbolic. There does not appear to be any strong prospect for a significant increase in economic relations. Mexico has little need for Cuban exports, and Lopez Portillo's economic plans do not appear to envision granting credits on a scale that Cuba would require to buy significantly largez amounts of Mexican goods.

Lopez Portillo may accept Castro's invitation to attend the nonaligned summit, given the Mexican President's apparent new interest in foreign policy. Lopez Portillo might be allowed to address the meeting, and in any case Mexico would participate as an observer, which would allow it to claim neutrality on the more controversial issues. Lopez Portillo

his attendance at the summit would be a

much more meaningful indicator of Third World interest than the Cozumel meeting.

Support Cuba for a seat this year on the UN Security
Council, however, since Lopez Portillo probably sees no
good reason to recant on the commitment he has already
made.

On Nicaragua, Mexico probably wants what everyone else wants: Soucas's replacement by a stable democratic government. In addition to his general and specific roral concerns, however, Lopes Portillo may also see Mexico's interests directly jeopardized by destabilization of the Central American region. If Lopez Portillo's current effort to isolate Somoza diplomatically does not prosper, however, it does not seem likely that he will venture outside the political security of a mithlateral initiative. Direct support to 'he Sandinista guerrillas—similar to ali given by Panama and Venezuela—is improbable.

Although the break with dicaragua is out of character for Mexico, it accords with other suggestions that lopez Portillo may be inaugurating a new activist foreign policy. His first year or so in office was essentially introspective as he worked to restone economic stability. In the past year, however, he has increasingly focussed attention on foreign affairs. He has made state visits to the USSR, Japan; and China, and bas entertained the heads of state of France, the US, and Cuba, as well as the Pope. The Mexican President is also planning to address the UN in September to propose an approach to world energy as the responsibility of mankind.

Since this initiative at the UN will probably include supplier swaps as in ingredient in more efficient energy use, Lopez Portillo may feel under some pressure to work out the differences with the USSR over the quadrilateral oil deal. Moreover, in additior to Mexico's share of the transportation savings, shipping cil to Cuba would deflect public fallout from any future natural gas sale to the US.

Past Relations Between Mexico and Cuba

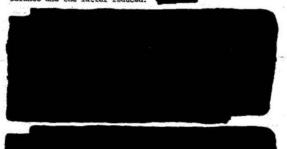
Mexico is the only Latin American country to have maintained relations with Cuba throughout Castro's rule, a distinction that most Mexicans seem proud of. During the 1960s, however, the Mexican government was suspicious of Cuban efforts to export revolution.

Publicly, Echeverria kept up appearances by promoting Cuban participation in the OAS-though Cuba was uninterested --G-77, CECLA, and hemispheric conferences. At the same time, he began to promote US-Cuban rapprochement. As his suspicions regarding Cuban involvement with Mexican querrillas began to ease later in his term, he increasingly argued that the US must draw Cuba out of the Soviet orbit. Lopez Portillo has also offered to mediate US-Cuban differences in order that Cuba may become more fully integrated into the Latin American family of nations.

During the early 1970s, Mexico resolved a number of differences with Cuba, including extradition of skyjackers (1971) and Cuban fishing in Mexico's exclusive economic zone (1976). A large number of reciprocal visits were made by cabinet heads and technical and parliamentary delegations, culminating in Echeverria's state visit to Cuba in August 1975. Castro believed relations had reached an all-time high, and the visit was a political success for Echeverria.

Novertheless, it appears that the two leaders did not hit it off personally. Cuba's involvement in Angola shortly afterward threatened to cloud relations, but Echeverria tended to blame the USSR for the Cuban action. When Echeverria left office, relations were friendly,

Relations cooled a bit after Lopez Portillo took office, if only because the inordinate atmospherics of Echeverria passed from the scene. With the economic squeezs in Mexico, Lopez Portillo kept a tighter rein on export credits for Bavana and played down Mexico's ties to Castro in order to placate conservative business elements in Mexico whose cooperation he needed in order to restore economic stability. When the tachnical-scientific and cultural-educational conventions were renewed in August 1977, the former were brought more into balance and the latter reduced.



Roel and his Cuban counter; rt, Isidoro Malmierca, exchanged visits in December 1977, and January 1978. The standard agreements and exchanges were signed, but little of significance transpired. At the same time, there has been increasing contact between officials of both countries and reciprocal travel.

Economic relations between the two countries remain modest, although the easing of Mexico's economic problems makes greater interchange possible. Still, Mexico generally does not see itself as a creditor, which is what Cuba needs. In the past, Mexican loans through the National Foreign Trade Bank were on strict, essentially commercial bank terms, with no political considerations, In 1978 the two countries signed a 510 million credits agreement in which Mexico was basically the creditor, because the small volume of trade between the two was and remains heavily in Mexico's favor. Cooperation in various areas of the sugar industry continues, but not on a major scale.

Title:	LAR: MEXICO: DEFENSE SECRETARY'S VISIT TO THE USSR.
Abstract:	1.
Pages:	0004
Pub Date:	10/5/1979
Release Date:	9/10/1999
Keywords:	SOVIET UNIONJUSSR DEFENSE MINISTER MEXICAN GALVAN FELIX
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Release Decision:	RIPPUB
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NOPORN-HOCON

Latin America Review

5 October 1979

Secret

3 October 1979

SECRET

Mexico: Defense Secretary's Visit to the USER

Defense Secretary Felix Galvan's trip to Moscow in late September was timed to remind Washington of Mexico's independent position in international affairs.

The Mexican press his reported Galvan's vague statements in Moscow concerning a possible military training agreement.

The Mexicans have been cautious not to overplay the Galvan mission or to give the impression that it had any hidden meaning. Galvan,

that his visit was strictly confined to developing contacts between the two armed forces.

Oiven the small Mexican military establishment and its restricted political role, an agreement—if one exists—probably would be limited to cooperation in training a small number of officers at Soviet military academies. Any dramatic change on Mexico's part to upgrade ties with the Soviets would rest with President Loper Portillo.

Mexican military leadership has played down contacts with the USSR in the past.

A LOW-level armed lordes delegation traveled to Roscow in August 1977, but its purpose was primarily detenonial.

5 October 1979

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Calvan is a staunch anti-Communist, although he probably has no aversion to investigating what sort of cooperation the Soviets might propose.

ruling party has traditionally satisfied military appetites by awarding political posts to senior officers rather than by approving extensive weapons acquisitions.

Galvan's trip and the press coverage probably are part of Lopez Portillo's left-right balancing act for his domestic audience and a gambit to improve his bargaining stance

At the same time, Galvan's trip enables the President to assuage leftist criticism

Like the rest of Mexican officialdom, Defense Secretary Calavan has an apparently genuine conviction about maintaining an independent attitude in relations with all countries—a hallmark of Mexican foreign policy. Mexico, therefore, might consider some small-scale co-operation with the USSA.

5 October 1979

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SECRET

Title:	MEXICO	
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Pub Date:	4/5/1980	
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Case Number:	F-1998-00947	
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Release Decision:	RIPPUB	
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STAFF

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"/MEXICO: PRESIDENT LOPEZ PORTILLO'S RECENTLY ANNOUNCED DECISION TO POSTPONE INDEFINITELY ZICHING THE GENERAL ARREFMENT ON TAPISES AND TRADE REFLECTS HIS COMMITMENT TO STEER A
POLITICAL COURSE INDEPENDENT OF THE US AND A DETERMINATION OF THE STATE OF THE STATE OF THE STATE OF THE THING OF THE ANNOUNCEMENT HAS A SUPPRISE AS MEXICO HAD
UNTIL MAY TO DECIDE. LOPEZ PORTILLO PROBABLY MANIED TO
AVERT DOMESTIC CRITICISM OF INCREASING OIL PRODUCTION, WHICH FAVORS US INTERESTS.//

F(b)(1) F(b)(3) (S)

//THF DECISION PROBABLY WILL NOT GREATLY AFFECT US-MEXICAN TRADE IN THE SHORT TERM. SINCE LAST YEAR'S TRADE

AGREEMENT FITH THE US HAS NOW LAPSED, MEXICO MAY HAVE TO FORGO ONLY AMOUT SOO MILLION IN TAPIFF CONCESSIONS. MEXICO'S UNDER SECHETARY OF COMMERCE INDICATED THAT THE US WILL BE THE FIRST COUNTRY APPROACHED FOR A NEW BILATERAL ACCORD. MEXICO BELIEVES THAT US INTERFST IN OIL AND ILLEGAL MIGRATION: WILL MAYE IT MOVE RESPONSIVE TO MEXICAN PROBLEMS! THE RECENT US PULLING ON MINTER VEGETABLES IN FAVOR OF MEXICO WILL STRENGTHEN THIS PERCEPTION./

APPROVED FOR RELEASE BATE: NOV 1999

Title:	MEXICO-CUBA: LOPEZ PORTILLO'S VISIT
Abstract:	(BEST COPY AVAILABLE)
Pages:	0001
Pub Date:	8/2/1980
Release Date:	12/7/1999
Keywords:	MEXICO (CUBA HAVANA VISIT US POLICY CASTRO REGIME PORTILLO JOSE LOPEZ
Case Number:	F-1996-02004
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Release Decision:	RIPPUB
Classification:	U

RIEFS AND CONNENTS

MEXICO-CUBA: Lopez Portillo's Visit

President Lopez Portillo is likely to be effusive in his praise of the Castro regime and may make critical remarks about US policy toward Cuba in his major address today in Havana.

Lopez Portillo

US, and the warmth of the Cuban welcome may lead him to excessive rhetoric.

Before leaving on his Latin American trip, Lopez Portillo told that in his talks with Castro he would be guided by Mexico's longstanding friendship with Cuba. He said Mexico and Cuba are "blood brothers" with deep historical and cultural ties and that the US should understand this special relationship.

The Mexican President was seriously troubled by a US military exercise scheduled at Guantanamo Naval Base last spring, and by publicly identifying with the Castro to discourage any US attempts of the control of the c

damage to US-Mexican relations. He has promised to speak to Castro about the Cuban refugees still in the US Interests Section and says that he will urge restraint on Castro in Central America.

Top Secret

Approved for Release 2 August 1980

Title:	MEXICO-CUBA: LOPEZ PORTILLO'S TRIP
Abstract:	
Pagest	0001
Pub Date:	8/5/1990
Release Date:	12/7/1999
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Case Number:	F-1996-02004
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Release Decision:	RIPPUB
Classification:	U

Lopez Portillo's Trip

In his speech in Cuba on Saturday, President Lopez Portillo emphasized Mexico's solidarity with Cuba while subtly encouraging Castro to seek greater independence frowthe USSR. He did not criticize the US by name but, in line with his concern for nomintervention by either superpower, condemned the maintenance of "areas of influence of all hegemonies. The joint communique reiterated Mexico's longstanding support for an end to the economic embargo of Cuba, the return of the Guantanamo Naval Base, und called for an end to violations of Cuban air space. Lopez Portillo publicly offered to broker negotiations with the US on enging the embargo.



Approved for Releas

Title:	DEALING WITH MEXICO IN THE 1980'S	
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Release Decision:	RIPPUB	
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DEALING WITH MEXICO IN THE 1980s

Information available as of 9 September 1980 was used in the preparation of this Estimate.



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EXECUTIVE SUMMARY

It is inevitable that Mexico will absorb an increasing share of US policymakers' attention in the 1980s. This Estimate attempts to set bases of judgment that will be as valid for dealing with future Mexican governments as with the present administration of Jose Lopez Portillo

The System

By many criteria, Mexico ranks as the world's most successful developing nation. For half a century it has had stable governments and orderly and regular changes of government. This long period of political stability—unique for a major Third World country—has allowed economic growth to average between 6 and 7 percent since the mid-1930s—another unique achievement. The nation's political and economic success is largely a function of the Mexican political system.

The system, which was developed largely in the two decades following the Revolution of 1910, is highly authoritarian. All important power—including that of choosing his successor—rests with the president. Legislative officials, governors, and mayors of important cities, though nominally elected, are in fact designated by the president and their first loyalty is to him and not to their constituents. Unlike exclusive authoritarian systems, however, Mexico's inclusive system sets great store in bringing all Mexicans into the system in at least a symbolic way. In the preelection period the presidential candidate engages in several months of vigorous campaigning through even the smallest villages to "create a bond with the people." Once elected, the president—as well as his ministers, department heads, governors, and mayors—is amazingly accessible to delegations from all sectors of Mexican society.

The system makes use of, and reinforces, the vertical, patron-client structure of Mexican society. To the despair of Marxists, Mexican workers and peasants show little class consciousness, horizontal linkages with one's fellows are considered much less effective than vertical linkages with a patron in achieving economic or political success. It is these workers and peasants as well as the unemployed poor who form the

backbone of support for the official party. Members of the middle class have more options and their loyalty to the system is more conditional; thus, they receive most of the government's carrots and sticks. It is members of this class who are most likely to find themselves rewarded by good government jobs or thrown into jail.

A major strength of the system is the turnover of power that occurs every six years. Although the president has virtual dictatorial power during his term, he is expected to fade away and enjoy his wealth in modest seclusion at the end of his presidency. His last act is that of choosing his successor, over whom he will then have no control or influence. (It is a characteristic of the Mexican system that each president tends to be followed by a successor who corrects the exaggerations of the outgoing president's own policies and personality. Thus, the leftist Cardenas was followed by the rightist Avila Camacho, the unusually corrupt Aleman was followed by the unusually honest Ruiz Cortines, the erratic Echeverria was followed by the steady Lopez Portillo). The change of president is reflected in a massive turnover of personnel elsewhere in government. Thus, many politically ambitious Mexicans feel that they are never more than six years away from their golden opportunity; there is no need for revolution.

Dangers to the System

We see a number of possible dangers for Mexican political stability in the 1980s:

- Growth of Mexico City. If greater Mexico City, with something over 14 million people today, were to continue growing
 at recent rates, the population would exceed 25 million by 1990.
 Such an outcome is impossible; given water and land constraints,
 the Valley of Mexico can support only some 20 million people.
 Even if all migration to Mexico City were to cease this year,
 natural increase alone would push the city's population close
 to the 20 million mark by the end of the 1980x. This means
 that, by the early 1990s at the latest, the Mexican Covernment
 must find some combination of carrots and sticks to stop migration to Mexico City and to induce a part of the native-born
 population to leave the capital.
- Size of the middle class. The steady growth in both the relative and absolute size of this class is now being accelerated by the inflow of oil wealth. Although the middle class profits most from the Mexican political system, it is also the most dissatisfied with the hypocrisy inherent in the system and with the severe limitations that the system places on political choice. As the middle class becomes steadily stronger relative to such

sectors of government support as labor and the peasantry, the government will be faced with some hard choices. On the one hand, it must make enough reforms to dampen middle class discontent. On the other hand, it must avoid "reforming" itself into the kind of weakness that characterizes many Third World governments.

Presidential death or incompetence. As there is no vice president in the Mexican system, the legislature has the duty under the constitution to appoint a replacement for a president unable to complete his term of office. In practice, this probably would lead to a severe crists. The Mexican legislature is used to taking orders, not to making decisions on its own. Moreover, while certain members of the official party, the cabinet, the bureaucracy, and the labor unions have considerable influence, there are no "kingmakers" aside from the outgoing president himself.

Instability Indicators

On the brighter side, we have taken a hard look at a number of factors identified by other observers as containing the seeds of political instability—change in the rural sector, rising unemployment, and the Communist "menace" from Central America—and have concluded that these offer little threat to the Mexican system in the 1980s. Overall, we believe that the chance of regime-threatening political instability during the decade is less than one in ten. We recognize that, because of this low probability, experienced observers will tend to overlook signs of political instability if they do appear. To guard against this possibility, we have drawn up a detailed checklist of instability indicators tailored to the Mexican system. It is presented in paragraphs 107-113 at the end of this Estimate.

The US-Mexican Relationship

During the 1980s, the relationship between Mexico and the United States is destined to become much closer—probably closer than either country desires. Because of oil, Mexico's bilateral trade with the United States will run a surplus for the first time in recent history. This event is likely to fuel arguments in this country for restrictions on Mexico's nonoil exports (which are essential to Mexico City's strategy for coping with unemployment). "Dollarization" of the Mexican economy will proceed apace, as Mexicans continue the trend of holding funds and doing business in dollars rather than pesos. This will make an independent monetary policy extremely difficult if not impossible for Mexico City.

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The blurring of the US-Mexican border will probably accelerate—

In US eyes, the blurring of the border is seen largely in terms of illegal migration of Mexican workers to US labor markets. While the size and effects of this migration have been grossly exaggerated in the US popular mind, there is no doubt that the flow is large and increasing. Moreover, it appears to be changing in nature; whereas the typical Mexican illegal of the past was a rural laborer who spent only four to six months in the United States, the typical illegal of the future may well be an urban Mexican who will plan on spending several years north of the border. By the end of the 1980s, the United States may have reason to welcome an inflow of foreign labor despite the social pressures it may create. The US domestic labor force aged 16 through 34—the age group that includes most Mexican illegal migrants—is projected to grow only 1 percent during the 1980s, as compared with 34 percent during the 1970s. Thus, before the decade is over. US industry and agriculture may be in dire need of young foreign workers.



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DISCUSSION

- 1. During the decade of the 1980s, we expect profound changes in the relationship between Mexico and the United States. Many of these changes have long been in train and are largely outside the influence of policy decisions in both nations. Nonetheless, while the basic thrust of the changes may be immutable, the evolving situation will present policymakers with opportunities to be seized and dangers to be avoided.
- 2. This Estimate is divided into two parts. Part One considers the probable evolution of US-Mexican link-

ages over the next 10 years, assesses Mexican perceptions of these linkages, and suggests a number of considerations to be held in mind when dealing with Mexico. The second part—based on several years of research just completed

examines the probable course of Mexico's econothry and political system though 1989, with emphasis on the outlook for political stability. Many of the conclusions of Part One depend upon the analysis in Part Two.

Part One-US-Mexican Relations

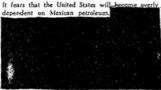
Evolving Linkages

A. Oil and the New Trade Picture

- 3. This year we expect a very basic alteration in the trade relationship between the United States and Mexico. Because of oil, Mexico's bilateral trade account with the United States will run a surplus for the first time in recent history. Moreover, at the option of the Mexican Covernment, this surplus can persist and grow as the decade progresses. Although Mexican oil sales will dominate the current account, other elements are likely to shift in ways favorable to the United States. The growth of nonoil exports to the United States will probably slow, while that of US exports to Mexico (including a large volume of smuggled goods) will accelerate. The number of Mexican tourists in the United States will increase, and they will spend more money than ever before. Debt service payments to the United States will remain high.
- 4. The United States has long dominated Mexico's foreign trade. Despite strenuous efforts by Mexico City to shift its exports and imports to other nations, in 1979 the United States still accounted for 70 percent of Mexican exports (as compared with 60 percent in 1969) and a little over 60 percent of Mexican imports (about the same as in 1969). If smugaled goods were included, the US share of Mexican imports would rise by several percentage points. Traditionally, Mexico's substantial trade deficits with the United States were offset in part by surpluses on the tourism account—

leaving large but manageable current account deficits, which were, in turn, covered by capital imports from the United States.

Despite the apparent benefits, the Mexican Coverament is not entirely happy with the new situation.
 It fears that the United States will become overly descendent on Mexican applications.



- The Mexican Government is attacking the perceived danger in two ways: (1) by seeking to diversify its oil exports; and (2) by limiting the total amount of oil exports. Neither method is likely to be totally successful.
- 7. Early in the Lopez Portillo administration, the Mexican Government set itself the goal of reducing the US share of Mexican oil exports from 80 to 60 percent. So far it has not been successful in this effort—in the first auarter of 1980, exports to the United States (including Puerto Rico) were 80 percent of total oil exports. This is targely the result of geography. Because of the transportation differential, European and

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Japanese buyers of Mexican oil must pay more than American buyers. Some of these countries are willing to overlook such cost differences in order to assure future access to Mexican supplies; others are not. For its part, Pemes (the Mexican state oil monopoly) has been unwilling to cut its prices in order to offset the transportation differential. Unless the Mexican Covernment gives greater priority to diversification, future progress toward reducing the Us share of Mexican off-exports will probably hinge on complex barterinvestment packages—which are proving very difficult to necessiate.

8. President Lopez Portillo has set an export ceiling of 1.1 million barrels a day, though this ceiling almost certainly will be revised upward before the end of his administration in December 1982. Conservation of national oil reserves is popular with all segments of Mexican society from the far left to the far right. Nonetheless, in order to meet other economic goals (for example, an 8-percent annual growth in gross domestic product), oil exports will almost certainly have to be expanded after 1982 if not before. How much will depend on the world price of oil. If the price of oil rises only as fast as world inflation and Mexico maintains a fixed exchange rate, almost 3 million b/d would have to be exported by 1985. On the other hand, if the real price of oil rises by 10 percent annually (to \$80 a barrel in 1985), exports could be held down to 1.6 million b/d. Beyond 1985, we would expect oil exports to continue to expand unless constrained by domestic requirements and/or technical factors."

9. Thus, despite the Mexican Government's preferences, it seems inevitable that the United States will be importing considerably more Mexican oil as the decade progresses. And Mexico will be using the dollars earned to buy ever greater quantities of US goods, including some foodstuffs. Mexico City will see evolving trade ties both as a restriction on its freedom of action and as an opportunity for leverage to expand nonoil exports to the United States. (Expanding nonoil export industries is considered one of Mexico's few good possibilities for increasing jobs and cutting into the serious unemployment problem. We expect most Mexican demands on the United States in the 1980s to concern nonoil exports.) To the extent that Ieverage

is successful, trade ties between the two countries will be increased, Mexican economic freedom of action will be further restricted, and the Mexican Government's paranoia will grow in step with the success of its leverage policies.

Finance and the Dollarization of the Mexican Economy

10. During the next decade, US investment in Mexico-both direct and financial-will be limited primarily by what the Mexican Covernment chooses to accept. As the oil-dependent "miracle economies" of the 1960s and 1970s-Brazil, South Korea, Taiwanbegin to lose some of their luster in an energy-constrained world. US investors will find Mexico increasingly attractive. Indeed, if US investors have their way, Mexico will pass Brazil to become the foremost site for US loans and direct investment in the Third World. On the other hand, the Mexican Government will probably use its oil earnings to stabilize foreign borrowing needs. (We believe that the Mexican Government will accept annual current account deficits on the order of \$3 billion; it could, of course, Increase exports and thereby eliminate the need for foreign borrowing.) With regard to direct investment, the government may well decide to strengthen or more rigidly enforce Mexicanization or other laws that discriminate against foreign investment in the domestic economy. On balance, we would expect a moderate increase in US investment in Mexico.

11. Any increase in the flow of foreign funds into the country-including those dollars used to pay for oil-will increase the already extensive dollarization of the Mexican economy. The dollar has long been used in Mexico both as a store of value and a medium of exchange. The Mexican peso is freely convertible, savings and checking accounts in Mexican banks may be denominated in dollars, and many Mexican bustnessmen conduct purely domestic business through US banks. The 1976 devaluation of the peso (and the rumors that led up to it) was a powerful incentive to dollarization. Mexico had not had a devaluation since 1954, and during those 22 years Mexicans had come to regard their currency as reasonably secure. When rising inflation and the erratic economic policies of former President Echeverria put the future of the peso in doubt, a massive flow out of pesos into dollars made the devaluation inevitable. At present the peso is officially "floating" but unofficially "fixed." Mexicans remain wary and prefer to keep their

For a detailed analysis of the economic factors that will be affecting Mexican oil export policy in the 1950s, see Merican Economic Trade-Offs and Ol Exports Through 1955, ER 80-10203, March 1950 (Confidential).

funds—and to make their deals—in dollars rather than risk getting burned by a new change in the value of the pess. Only a long period of stable exchange rates (backed up by low inflation rates) is likely to lessen the Mexican preference for holding dollars.

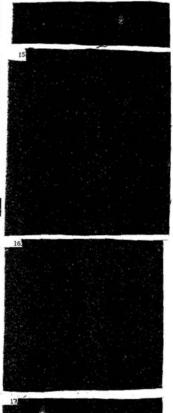
12. Almost any conceivable economic growth strategy for Mexico involves inflation rates in excess of those in the United States and other trading partners. Therefore an eventual devaluation will remain highly probable, and dollarization will continue and periodically accelerate. This means that an important part of the Mexican money supply will remain outside the control of the Mexican Government. Monetary policy and the stimulation of certain sectors of the economy through allocation of credit will become less effective. Many Mexicans, seeing the loss of monetary control over their own economy through dollarization, will assume (incorrectly) that the United States has somehow gained control.

 Migration and the Blurring of the US-Mexican Border

12

In prehippanic times, Mexico—that is to say, the highindian civilizations—never extended north of the present state of Sinaloa on the west and central Tamaulipas on the east, Beyond that was the "Great Chichimeca," the home of the savage barbarians who periodically raided into the civilized south. Centuries later it was the home of the violent revolutionaries who took the nation by storm and, to a large extent, created modern Mexico. (All of the major figures in the Revolution of 1910, with the exception of Zapata, were from border states.) As revolutionary violence slowly gave way to order, the politicians of the south took over from the generals of the north and the politicians never again let go. Once more the conquering Chichimecs had been overcome by the civilizing









18. In non-Mexican eyes, the blurring of the border is seen-largely in terms of illegal migration of Mexican workers to US labor markets—even though the migration is not basically a border phenomenon. Most illegal migrants have not been from the border states but from rural areas in central Mexico. While the size and effects of this migration have been grossity exaggerated.

in the US popular mind," there is no doubt that the flow is large and increasing. (We estimate that between 500,000 and 800,000 Mexicans enter the United States illegally each normal year. In the drought years 1979 and 1980 the numbers may prove considerably higher. However, at least two-thirds and perhaps as much as 80 percent of these migrants return to Mexico after only a few months.) Migrants generally make periodic trips to the United States in order to maintain an adequate standard of living for themselves and their families in their home villages. These migrants do not come from the poorest areas of Mexico, nor are they among the poorest in the areas from which they do come. Nonetheless, their migration (and the money they send back) helps reduce Mexican underemployment and thereby constitutes a political and social "safety valve" for the Mexican Government.

19. During the 1980s we expect to see a slow change in the nature, and possibly the size, of the il-

^{*}For a complete discussion of Mexican illegal migration, see Mextoo: Sources of Illegal Migration, ER 77-10605, December 1977 (Confidential).

legal flow. More urbanites will come, they will be better educated and more ambitious, and they will be planning to stay in the United States for several years rather than several months. Many will be "target workers," staying as long as necessary to earn the amount of money required to start a business (in many cases a taxicab) or build a home back in Mexico. Others will simply be earning money to raise living standards of the extended families to which they belong in their native cities. Although these urban workers, like their counterparts from rural Mexico, will initially be willing to take jobs that few US workers want, they will soon develop both the skills and the desire to compete for better paying, less arduous work. Many more than at present will bring their families. While the pool from which illegal migrants are drawn will grow substantially during the next decade, the actual flow will be greater or less, depending on developments in Mexico.3 The establishment of a new legal migration agreement between the United States and Mexico could also change the size and character of the illegal flow, depending on the exact nature of the agreement.

20. By the end of the 1980s, the United States may have reason to welcome a flow of Mexican workers (beyond the already existing substantial US interest in helping assure Mexican political stability through the safety-valve effect of illegal migration). According to projections by the US Bureau of Labor Statistics, the US labor force aged 16 through 34-the age group that includes most Mexican illegal migrants-will grow only 1 percent during the 1980s, as compared with 34 percent during the 1970s. The labor force aged 16 through 24, which expanded by 19 percent in the 1970s, will contract by 15 percent in the 1980s. Thus, before the decade is over, US industry and agriculture may be in dire need of young foreign workers. Some US interests may well be pressing for a new bracero program or even a broader temporary worker migration plan along the lines of West European guest-worker ocograms.

21. As a final note on border linkages, it should be remembered that economic events and decisions in either country can have more pronounced effects along the border than in the heartlands. US recessions, for example, often devastate Mexican border cities by teducing; (1) the demand for commuter labor, (2) the demand for the output of US-owned border industries in Mexico, and (3) US tourism along the border. On the Mexico, and (3) US tourism along the border. On

the other hand, a Mexican devaluation (like that of 1976) makes US goods much more expensive to Mexicans and can cut Mexican shopping in the United States almost to zero. Moreover, the devaluation of late 1976—along with the generally poor condition of the Mexican economy during the last days of the Echeverria administration—sharply increased US-Mexican wage differentials and may have led to a doubling of the flow of Illegal migrants in 1977. (We estimate that the illegal flow in 1977 may have gone as high as 1.5 million persons, or two to three times the normal flow.)

D. The Increasing US Stake in Mexican Political Stability

22. Not too long ago the prevailing view in the United States was that Mexican political and social stability was largely Mexico's own business—so long as no US lives or property were threatened. This attitude is rapidly changing. US opinion now lears that political instability in Mexico could: (1) send a manvie wave of illegal migrants across the border; (2) leopardize US and world oil supplier; and (3) open the door to Communist penetration, Mexicans have been quick to recognize the new US concern. Indeed, one Mexican intellectual commented with considerable exaggeration that the United States has more to lose from Mexican instability than does the average Mexican citizen.

23. In Part Two of this estimate we examine in depth the question of political and social stability in Mexico in the 1980x. Here, we would only point out that the increasing US stake in Mexican stability is another link between the two countries. We expect it to have two effects. First, Mexican administrations will be tempted to use US concern as leverage—To what we want or well explode." Second, US officials will be tempted to give Mexico unsolicited advice on how to solve its "serious social problems." It will be another unwanted tie that creates tension."

Linkage and Leverage

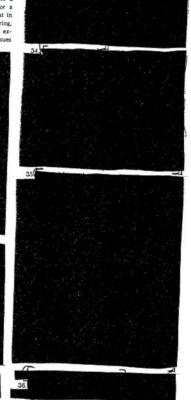
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[&]quot;See pages 23 and 24 of Merico: The Impact of Rapid Population Growth, ER 78-10747, December 1978 (Seggh).

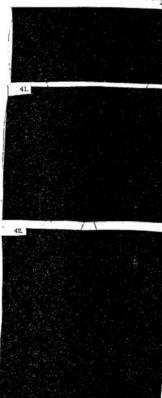
NOFORM NOCONTRACT 30. Beyond saying that most of the issues that will arise between the United States and Mexico during the 1980s will concern Mexico's nonoil exports, it is impossible to predict the changing content of these issues with any confidence. Their significance will depend largely upon the personalities and priorities of

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the leaders of both nations. The state of the world economy and events in the Middle East will, of course, influence Mexican needs for US markets and US needs for Mexican oil. Purely chance events—a replay of the Intoc-1 blowout, an anti-Chicano riot in California, well-publicited mistreatment of a US citizen in a Mexican jail—could overshadow other issues for a period of months. It is safe to say, however, that in 1990, as in 1980, oil and gas exports, water sharing, narcottes, border pollution, Mexican agricultural exports, and Mexico's positions on international issues will continue to be important concerns.



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43. Capital- Versus Labor-Intensice Development. Despite a rapidly growing labor force and a

combined rate of unemployment and underemployment that some authorities believe approaches 50 percent, the Mexican Government has consistently favored capital-intensive rather than labor-intensive development. To many foreign economists, this smacks of idiocy. Why then does the government pursue such a course? One reason is to keep Mexican industry near the forefront of modern technology. A second, more important, reason is that most laborintensive jobs are very low paying and, despite the unemployment rate, there is little demand for lowpaying factory jobs in Mexico. Mexico already has many labor-intensive industries-textiles, shoes, cigarettes, some food processing-but most of these industries have a poor record in attracting workers. (The US-owned assembly industries along the border, which pay well by Mexican standards and hire mostly women, are exceptions.) The average unskilled Mexican usually finds that be can make as much money through casual jobs in construction or the service sector as in a labor-intensive factory. And the work is more pleasant and less regimented.

44. A third reason for the Mexican Government's preference for capital-intensive industry is directly political. From the point of view of political stability, it is much more important to provide suitable jobs for Mexico's ever increasing number of high school and university graduates (who are politically very active) than for the masses of unskilled workers (who are already in the government's pocket). One of the virtues of capital-intensive industry is precisely that it can provide large numbers of good jobs for educated Mexicans. As long as the unemployment rate for educated Mexicans (including skilled workers). Is virtually zero—which it is—the government feels that unemployment elsewhere in the economy is politically manageable. The reverse would not be true.

45. Cieil Seroice Reform. Every six years, with the change of presidents, there is a greaf reshuffling of the government bureaucrav. One conséquence of the wholesale changeover is that bureaucrast, despite often broad experience in government, do not have the time to develop true expertise and there is little continuity in government policy. Many people have concluded from this that a nonpolitical civil service should be

[&]quot;While we agree that the combined unemployment and underemployment rate is high and growing, we doubt that it is nearly so high as most observers, including those of the Mexican Coverment, believes the second of the second of the coverment, believes the second of the second o



established. Although the Mexican Government may be going in this direction—forced by the increasing complexity of government task—it realizes that it is treading on dangerous ground and is proceeding very slowly. The choice is between increasing efficiency and safeguarding opportunity.

46. Perhaps more than over any other issue, the Revolution of 1910 was fought over continuismo-the tendency of a president and his cronies to stay in office forever and not give anyone else a chance. For this reason, the Mexican president (who has almost complete dictatorial power during his six-year term, including the power to select his successor) is expected to disappear at the end of his administration and take his friends and clients with him. The new president, as belits a six-year Caesar, can and does make wholesale changes in policy and personnel. These changes reverberate through the entire government structure. Because of this system, the hopeful and politically ambitious Mexican is never more than six years away from his golden opportunity: there is no need for revolution. Indeed, the establishment of a truly effective civil service in Mexico might turn out to be revolutionary in more ways than one.

 Communium. To many US observers, the Mexican Government seems dangerously unexcited about Cuba, Central America, and the Communist menace in general





51. Mexican presidents, though their record is excellent, are fallible. During the next 10 years, they may misread the situation, overlook developing tensions, take the wrong actions at the wrong times. If they do, US as well as Mexican interests will suffer. Nonetheless, even if in a particular case US policymakers do know what is best for Mexico, they should recognize that advice from north of the Rio Bravo is not and never will be acceptable. Mexicans will keep their own house in order without US help—or not at all. However, if a US president has one or two specific requests to make of a Mexican president (in private) for the US good, the Mexican president will inten with respect and consideration. The United States is an important part of the Mexican environment, and no Mexican president will forget

Part Two-Mexico in the 1980s

The Setting

A. Population Growth and Urbanization

52. For the next decade, the course of population growth and urbanization will be the most important element in the Mexican setting-that is to say, in that complex of factors not under the direct control of the Mexican Government. During the past two or three years, the Mexican family planning program has had remarkable success in reducing the population growth rate-long one of the world's highest-to about 2.5 percent. If this reduction in the growth rate represents a trend, and most indications are that it does, then the country will probably follow rather closely the low-growth projection given in our Mexican population study. Total population, now roughly 68.5 million, will probably reach 78 million by 1985 and 88 million by 1990-well below the 81 million and 95 million of our high-growth projection.

53. Because most of the Mexicans who will join the labor force in the 1980s were already born before the trend toward lower population growth began, the beneficial effect on employment will be slight. Indeed, the labor force (currently about 19.7 million) will number only some 20,000 less in 1990 than it would have under our high population growth projection. In either case, roughly 1 million new jobs must be created each year during the 1950s if the unemployment rate is to remain constant. There is no way that this can be done; the only question is how much worse the unemployment-rate will get.

54. The urban explosion promises to be a greater headache for the Mexican Covernment in the 1980s than the growth of population and the labor force. Largely because of the substantial wage differential between rural and urban areas, which has led to heavy rural-urban migration, Mexico's urban population is growing much more rapidly than the population of the country as a whole. Most of this growth is centered in Mexico City. If greater Mexico City, with something over 14 million people today, were to continue growing at recent rates, the population would exceed 25 million by 1990. Such an outcome is impossible; given water and land constraints, the Valley of Mexico can support only some 20 million people. Even if all migration to greater Mexico City were to cease this year, natural increase alone would push the city's population close to the 20 million mark by the end of the decade. This means that, by the early 1990s at the latest, the Mexican Covernment must find some combination of carrots and sticks not only to stop migration to Mexico City but also to force a part of the native-born population out of the capital.

55. The redirection of national fural-urban migration, combined with substantial interurban outmigration from Mexico City, would place a tremendous additional burden on services in secondary urban areas. Under ordinary circumstances, we would espect the population of the eight major secondary cities to grow by two-thirds over the next 10 years. Under the redirection scenario, these eight secondary centers would have to grow by 150 percent. And the problem will worsen rapidly after 1990. Thus, even if redirection is successful, it will have spread rather than solved the problems of urbanization.





B. Oil Prices and the World Economy

56. To cope with the problems of population and unemployment in the 1980s, the Mexican Government must (1) make the best possible use of it oil revenues and (2) develop strong export industries. (Effective domestic demand is far from being strong enough to absorb the output of Mexican industry on the scale required to reduce unemployment. Thus, some production must be sold abroad.) Mexico City's success in these efforts will depend to a large extent on factors outside of its control—the world price of oil and the economic health of its major trading partners. These two factors will probably work against each other.

57. Despite occasional periods of slack, oil supplies will probably remain tight through the period. Thus, oil prices will rise at least in line with world inflation and probably somewhat more rapidly. How much more rapidly will make considerable difference to the Mexican economy. For example, if the real price of oil rises at an average annual rate of 5 percent through 1985, just a single foreign sale of 1 million barrels of oil in that year would earn Mexico \$14 million more than if the price of oil only kept pace with inflation. If, on the other hand, the real price of oil rises at a 10-percent annual rate through 1985, the same 1-million-barrel sale would earn \$33 million more. When we consider that Mexico could be in a position to export as much as 3 million barrels a day in 1985, the difference in earnings between zero real growth in oil prices and 5 and 10 percent in real growth would be \$15 billion and \$36 billion, respectively. In that year. Beyond 1985, the price will increase further. As world oil prices can be neither controlled nor predicted by Mexico City, the Mexican Government will need to revise its economic development strategy on a year-to-year if not a month-to-month basis.

58. High and rapidly rising oil prices will both hurt and help the Mexican economy. On the one hand, high prices will enable the country to avoid the foreign exchange constraint to development at a relatively low cost in terms of resource depletion. On the other hand, the continuing rise in oil prices will limit economic growth in the United States and other markets for Mexico's nonoil exports. Although Mexico will not need such exports to balance its trade account, it will need them for the jobs they provide. If the US economy grows by less than 3 percent annually for the next 10 years—a scenario that some economists believe likely—the value of Mexico's nonoil exports could easily stagnate in real terms. (In this case, Mexico City

would be tempted to link oil and nonoil exports—a move that would be strongly resisted by industrialized importers of Mexican oil.)

The Evolution of the Mexican Economy to 1990

A. What Oil Can and Cannot Do

59. Thoughtful Mexicans realize that oil is not and cannot be the deus er machina that solves all the nation's social and economic problems. Indeed, many Mexicans (perhaps a majority) fear that the oil bonanza may turn out to be a curse disguised as a blessing. Veneruela and Iran are often mentioned as earn pies of the evils of oil in Mexico City conversation. In the Mexican view, Veneruela is essentially a backward, "one-crop" economy that will rapidly decline once the oil runs out. Iran is an example of the political chaos that ensues when wealth gets out of control. The Mexicans are not sure that it could not happen to them.

60. The economic dangers of the oil bonanza are as follows. First, the inflow of oil earnings could put upward pressure on the peso, thereby pricing Mexico's nonoil esports out of the international market. Second, oil earnings will increase the money supply (unless sterilized, which is almost impossible because of the dollarization of the Mexican economy) and thereby give rise to inflation. Third, if imports are greatly increased—a move that would help reduce domestic inflation as well as eliminate upward pressure on the peso—many domestic industries would be peopardized by the flood of cheaper foreign goods. In any of these cases, to b creation would falter and unemployment would increase.



62. If the economic and political dangers are so great, why not leave the cursed stuff in the ground? This is, in fact, a major thread in Mexican oil policy. The present administration has gone on record as wanting to produce only the bare amount needed to finance the foreign-exchange costs of development. Indeed, the government appears content to allow current account deficits on the order of 10 billion a year, believing that there are fewer dangers in continued foreign borrowing than in a headlong drive to produce and export vast amounts of petroleum.

63. The oil bonanza will not produce miracles but, properly used, it will allow 8-percent annual economic growth through the 1980s. Using our econometric model of the Mexican economy, we have examined oil/economic growth/inflation/balance of payments trade-offs in Mexico through 1985.1 We concluded that, under any reasonable assumptions about world oil prices, Mexico can achieve 8-percent economic growth in 1980-85 with oil exports of between 1 million and 2 million b/d. Beyond 1985. depending upon the pace of Mexican exploration and development, Mexico could have the reserve base and the facilities to export considerably more than the 2-million-b/d maximum that we project. Exports will also be influenced by the growth of domestic consumption. With 8-percent economic growth and no increase in conservation, the country would require almost 2 million b/d of oil for domestic use in 1985. By the mid-1980s, if not sooner, however, we expect the Mexican Covernment to introduce more realistic pricing for oil products sold on the domestic market as well as other measures to cut consumption growth. Such actions should allow some expansion in exports beyond 2 million b/d in the latter half of the decade, if necessary for adequate economic growth.

B. Employment and Economic Mobility

64. What does 8-percent economic growth mean for employment? New jobs will be created at a rate of about 3.5 percent a year during the decade—an average of a little over 700,000 new positions annually. During the same period the labor force will expand by almost 1 million workers annually. Thus, each year roughly 300,000 people will be added to the army of unemployed. The unemployment rate, currently between 10 and 12 percent, will rise to near 17 percent

in 1990. Underemployment, though difficult to define and quantify, could also be exacerbated. (We expect underemployment to decline in rural areas; it may, however, expand in the service sector.)

65. The high levels of unemployment that we foresee for the late 1980s do not necessarily mean an
equivalent increase in human misery. Most of the unemployed and underemployed will be idle for only
brief periods (for example, between crops in rural
areas or between construction projects in urban areas).
The real wage rate should steadily increase during the
period, allowing employed relatives and spouses to uphold to some degree the living standards of the unemployed. Many of those counted as unemployed or
underemployed will be earning decent livings in
quasi-legal manufacturing and commercial ventures.
Others will be living well on their earnings from a
few months' illeval labor in the United States.

66. Even with the increase in overall unemployment, the demand for skilled labor will remain strong. The upshot will be a further increase in Mexico's income inequality, as the earnings of electricians, bricklayers, and assembly-line workers pull steadily away from those of street vendors, small farmers, and unskilled construction workers. Mexico, however, is not like Europe and the United States, where unions and apprentice systems restrict entry into the skilled labor force; the lines between skilled and unskilled libor are blurred in Mexico. The ambitious and talented urban Mexican youth can often work himself into a skilled job (especially in construction) with little more than quick wits, keen observation, and a willingness to lie about his qualifications until those qualifications become real. It is much more difficult for the rural Mexican-especially the Indian-to break into the skilled

Self-

67. In an economy such as that of Mexico where there is not enough wealth (even after oil) to give everyone the good life, economic and social mobility become extremely important. In post-Revolutionary Mexico, differences of class, race, and even education impose few limits on personal achievement. An exmilkman can become one of the country's most important political figures. An Indian construction worker can become a multimillionaire contractor. These are, of course, exceptional people. The average Mexican, while his ambitions and shifties will not take him so far, does have a reasonable expectation of bettering himself. This is especially true of the high school or univergity graduate. The Mexican Covernment,

^{&#}x27;See Merico: Economic Trade-Offs and Off Exports Through 1985, ER 80-10203, March 1980 (Confidential).



through a variety of means including spurring the development of capital-intensive industry, has been careful to assure that opportunities are plentiful for the always potentially dangerous educated elite.

C. The Rural Sector

68. Mexico is no longer a rural nation and the main problems it faces are no longer rural problems-a fact that seems to have escaped most foreign observers and even some Mexican officials. Indeed, Mexico today is in many important respects similar to the United States between the two world wars; the rural sector is declining rapidly in importance while prospects for agriculture remain good. The agricultural labor force has fallen from 65 percent of the total in 1940 to 35 percent at present, while the amount of developed cropland has increased by 60 percent. The share of agriculture in the gross domestic product has fallen from 20 percent to 9 percent, while the value of agricultural output (in constant pesos) has risen by 350 percent. In the 1980s, we expect Mexico to continue its evolution from a nation of many poor subsistence farmers toward a nation of relatively few prosperous commercial farmers.

69. Explaining the Mexican rural sector is essentially a process of breaking down myths. Myth number one: Mexico cannot feed itself. This is simply not true. Mexico's agricultural balance of trade has shown a surplus in every recent year except 1974. Although Mexico imports about 15 percent of its basic foods. it exports enough coffee, cotton, and vegetables to more than offset its imports of corn, wheat, and oilseeds. So, it is not a question of using oil earnings to pay for food imports; agricultural exports not only pay for food imports but generally earn a half billion dollars or so in additional foreign exchange. As the Mexican peasant upgrades his operation (through education, mechanization, or irrigation), he typically shifts out of corn into more valuable crops. Thus, as this process accelerates, Mexico will: (1) import more basic foods; (2) export more high-value farm products; (3) increase farm incomes; and (4) add variety to the Mexican diet.

70. Myth number two: Mexico is so poor in land and water that agricultural output cannot be greatly expanded in the future. Extensive undeveloped arable lands remain, and there are also untapped water re-

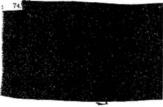
'See Mexican Agriculture: Myth and Reality, ER 79-10266, May 1979 (Confidential). sources; the difficulty is that the distribution patterns of these resources do not always coincide, and much of the north remains vulnerable to drought. Utilizing much of this land and water would require extensive capital investments, which neither the Mexican Covernment nor private interests are likely to make until profitable markets for the increased output can be found either in Mexico or abroad. As these markets are found, this land will be put into use. With adequate capital and technical inputs and more efficient utilization of water resources, agricultural production should be able to expand significantly through the 1980s, although droughts will continue to restrain output in some years.

71. Myth number three: the Mexican rural sector is a social and political powder keg. Not so. Although the number of landless peasants has doubled to about 4 million persons since 1950, rural unrest has decreased. The peasant's strong desire to own his own land either directly or as one plot on a state-owned farm (ejido)-a potent factor only a few decades ago-has declined markedly. While random rural violence exists as it always has, it appears to have little ideological content. Nowadays, the dissatisified peasant finds it more rewarding to head for Mexico City (permanently) or to California (for a few months) than to agitate for revolutionary change. (The land invasions during the latter days of the Echeverria administration apparently were instigated by elements in the federal government for political reasons and thus did not reflect widespread rural discontent. The present administration was able to cut them off virtually overnight.) In the 1980s, labor unrest by farm workers in prosperous areas of the north is more likely than peasant unrest in poorer areas of the nation. Neither is likely to be politically threatening.

D. Trade, Inflation, and the Exchange Rate

72. As we indicated earlier, Mexico's strategy for creating employment hinges upon the expansion of nonoil exports, both industrial and agricultural. Such an expansion will undoubtedly prove difficult. Because of the energy problem, the developed nations will be growing very slowly and therefore will constitute only a limited market for Mexican exports. Even this limited market for Mexican exports. Even this limited market may be further restricted by protectionist measures. On the domestic side, Mexico may allow its goods to become uncompetitive in price if it is unwilling or unable to control inflation or to' compensate for it through currency devaluation.

73. Thus, Mexico City will be faced with some hard political choices. Because of large increases in the money supply (due to the inflow of oil dollars), efforts to curb inflation will probably hinge on some combination of: (1) restrictions on the growth of real wages; (2) reduced government spending; (3) price controls; and (4) increased imports. Each of these methods works against the interests of politically important elements in Mexican society. On the other hand, any attempt to "live with" inflation through frequent exchange rate adjustments (perhaps combined with Brazilian-style indexation) would also be politieally costly. No economic statistic is more politically sensitive than the peso-dollar exchange rate. To your average Mexican cynic, statistics on inflation, employment, and economic growth are only as trustworthy as the government that publishes them; the exchange rate, however, can be verified by the man on the street. Thus, in popular opinion, the economic success of an administration is often judged by its ability to maintain the value of the peso.







76. Mexico's economic success—probably the most spectacular in the Third World, if the entire period from the mid-1930's to the present is considered—is in itself a source of legitimacy for the Mexican political system. For this reason alone, the Mexican president must always appear to be on top of the economic situation. Beyond the direct political effects of economic ills such as unemployment or inflation is the indirect political effect that these ills have on the appearance of presidential competence. In the Mexican case, it is at least arguable that the indirect effect is of greater importance for political stability than the direct effect of freet effect of the effect of the effect effect of the effect effect.

The Evolution of the Mexican Political System to 1990

A. How the System Works-and Why

77. The flow of authority in Mexico is the reverse of that in a textbook democracy. All important power-including that of choosing his successor-rests with the president. Legislative officials, governors, and mayors of important cities, though nominally elected, are in fact designated by the president and their first loyalty is to him and not to their constituents. The voters, knowing in advance who will be elected in each important contest, usually turn out in impressive numbers to demonstrate their loyalty to the system and to the chosen candidates. (Indeed, some writers have described voting in Mexico as more akin to saluting the flag than to making a choice.) The voters know that the benefits they receive from the system are at least roughly proportional to the manner in which they support the chosen candidates.

78. If the flow of authority is downward from the president, the flow of "legitimacy" is upward from the people. Unlike exclusive authoritarian systems, Mexico's inclusive system sets great store in bringing all Mexicans into the system in at least a symbolic way. In the preelection period the presidential candidate engages in several months of vigorous campagining through even the smallest villages to "create a bond with the people." Once elected, the president, as well as his ministers, department heads, governors, and



mayors, is amazingly accessible to delegations from all sectors of Mexican society. In a large number of cases, action is taken in response to such "petitions from loyal Mexicans."

79. Paradoxically, one of the strengths of the system lies in the fact that resources are limited and not all demands can be satisfied. A delegation from, say, a squatter settlement in the Federal District asking for piped water knows that if their group receives the benefit some other settlement must wait. Furthermore, the delegation knows that troublemakers who demand rather than request, who do not turn out to march and vote for the official party, who are less than completely cooperative are likely to go to the bottom of the list. The system, which permeates Mexican society, breeds gratitude on the part of the winners and a determination to "do things right next time" on the part of the losers. As it is based on interlocking vertical patron-client relationships, the system also effectively discourages potentially dangerous horizontal linkages between members of the same class.

80. In those rare cases when the judicious distribution of favors is not enough to assure political control. the ruthless side of the Mexican system comes into play. Typically, a leader who cannot be bought (through a combination of benefits to himself and tothe group he represents) first becomes a kind of nonperson on the Mexican scene; his followers go to the last of every line and soon he has no followers. If this is not sufficient to bring forth his cooperation, he is jailed, killed, or exiled. Once the government decides to act, it almost always errs on the side of overkill-perhaps reasoning that a wounded man (or group) is dangerous while a dead man (or thoroughly cowed group) is not. This spirit of no compromise accounts for the bloody persecution of Catholics during the Calles period (which effectively destroyed the Church as a political influence), the breaking of the northern landholders in the Cardenas period, and, more recently, the student massacres under Presidents Diaz Ordaz and Echeverria. The thinking of those who call the shots for the Brigada Blancs, the Halcones, and other government-controlled thugs seems to be: "A dozen dead students would be martyrs, while several hundred dead students will assure a decade of peace on the youth front."

B. The Presidential Succession and the PRI

81. The Revolution of 1910 was fought not so much against dictatorship as against continuismo, the seem-

ingly unending rule of a single man. Thus, after a few fabe starts in the Obregon and Calles periods, the revolutionary slogan of "no reelection" became a cornerstone of the political system. The Mexican president is given dictatorial powers—which most Mexicans believe are necessary for effective government—for a period of six years. At the end of his term, after "appointing" his successor, the outgoing president is expected to fade away and enjoy his wealth in modest seclusion. The amazing thing is that this is just what happened; no president since Calles (in the 1920s and early 1930s) has attempted to influence the policies of the man he chose to succeed him.

82. A second peculiarity of the Mezican system is that each president tends to be followed by a successor who corrects the enaggerations of the outgoing president's policies and personality. Thus, the leftist Cardenas was followed by the rightist Aviia Camacho, the unusually corrupt Aleman was followed by the unusually bonest Ruiz Cortines, the erratic Echeverria was followed by the steady Lopez Portillo. This characteristic is summed up by the common metaphor that "the Revolution walks with both a right foot and a left foot."

83. Presidents are chosen from among the members of the official party, the Partido Revolucionario Institucional, or PRI. The PRI is something like the US Democratic and Republican parties combined; it covers the full spectrum of tendencies and leaders from the extreme left to the extreme right. The only route to power for any serious politician is through the PRI; other parties exist, but they (much like minor parties in the United States) attract only those who are more interested in making a statement than in achieving power. Although the outgoing president may choose as his successor a technocrat who has not been greatly active in PRI affairs, it would be unthinkable for him not to choose a party member.

84. The Mexican political system—much more than its detractors would admit—it based solidly in the masses of peasants, workers, and "marginals," larged because these groups are the most susceptible to government inducements and ontrols. Voting patterns and the surveys of sociologists and anthropologists consistently indicate that the government's strongest support comes from the poorest urban and rural areas. The PRI, which in nonelection years is more of a government burgauersey than a party, has three tra-

[&]quot;The unemployed and underemployed in urban and rural aluma and in equatter settlements are usually designated as "marginals."



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ditional legs: the agrarian sector, the labor sector, and the "popular" sector which includes professionals, shookeepers, government workers, and marginals living in urban squatter settlements. All of these groups are highly organized in the typical vertical patronclient fashion.

85. The middle class, although technically part of the "popular" sector, is much less dependent on the government than are the poorer classes, and its loyalty is therefore more conditional. It is from this class that the greatest threats to the system have come, and it is to this class that the government distributes most of its carrots and sticks. This class, which is rapidly growing in both absolute and relative size, is receiving an ever greater share of the national income at the expense of both the poor and the very rich. It is the members of this class—professionals, journalists, students, union leaders—who are most likely to be found in good government joks or in jail.

86. Big business, though not a part of the PRI because of its nonrevolutionary origins, is linked to the system in much the same way as the other sectors. The government has, and has used, the power to greatly help or to destroy individual litrus, but it also depends on this sector to earry out much of its economic policy, especially in the area of 50b creation. Although big business generally toes the government hine, it has a power base of its own and has on rare occasions been able to light the government to a standstill on certain issues. Some observers believe that this power will increase over the next decade.

87. During the 1920s and the 1930s, the political influence of the Mexican military was steadily reduced under a series of revolutionary generals who. as presidents, feared the power of their comrades in arms. In 1946, when Mexico's first civilian president in over three decades took power, the military had largely coased to be a threat and had become an important support of the ruling party. The major function of the military is to protect the system from its internal enemies; the Army has been used to put down peasant revolts and student riots as well as to hunt guerrillas, smugglers, and bandits and to intimidate opposition political parties. Army officers command the Brigada Blanca and similar groups of government thugs. The military also has a civic action function, doing everything from building bridges to running hospitals in many of the less accessible areas of the country. Moreover, in many states the zone commander serves as an alternative to the governor for

conveying the desires of local interest groups to the president.

88. As compared with the establishments of other Latin American nations, the Mexican military is small (about 110,000 men in all three branches), ill equipped (the Air Force, for example, has only 20 jets, all of which are old), and underfinanced (traditionally receiving only about 2 percent of the federal budget). It is well disciplined, apparently completely loyal to the system, and has almost none of the institutional egotism of most South American military establishments. High-ranking officers are encouraged to seek wealth rather than political influence or power.

89. Recently there have been some indications that the military is beginning to see a new role for itself. Many military men do not share the nonchalance of other government officials toward events in Central America. They feel that co-ontation may not always do the trick and that they may be called upon to defend the nation's southern border against strong guerrills forces. Moreover, these military men see the oil bonanza both as a resource that requires a high level of military protection and as the means of paying for that protection. The Lopez Portillo administration is responding to these new military concerns with a modest modernization program that envisions buying aircraft, small ships, and other equipment from the United States and other foreign countries. If this program is thwarted, it could lead to a somewhat greater activism of the armed forces as a pressure group.

C. The Opposition-or Politics at the Fringe

90. In the past, all of the serious threats to the government have come from inside the "flevolutionary Family." In the elections of 1940, 1946, and 1952, important PRI leaders, angry at being passed over in the presidential succession, left the PRI and formed their own personality parties. Each of these ex-PRI candidates knew that the PRI would not allow a non-PRI candidate to win; what they hoped to do was to use the election to split the PRI and then settle the presidency by force of arms. (Two of these candidates happened to be generals.) Given the steady erosion of the strength and political power of the Army, this type of threat is not likely to rescout in the 1980s.

91. The nonpersonalist opposition parties differ only as to the extent to which they have been coopted. The Partido Accion Nacional, or PAN, is the oldest, strongest, and most independent of the opposition parties. Although generally considered conserv-

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ative, it is not reactionary and has occasionally challenged PRI policies from a leftist perspective. The PAN is essentially a Christian Democratic party with the religious elements greatly downplayed because of Mexican law. It is the recipient of most anti-PRI protest votes and has often showed considerable strength in the northern states. In an absolutely free election, the PAN might win a governorship; it could not win the presidency.

92. The Communist Party (PCM), as we discussed in Part One, is more co-opted than the PAN but less than most of the other parties of the left. PCM deputies occasionally challenge government policy in the legislature and occasionally are allowed to carry the day on minor issues. Since legalization, the PCM has been weakened by divisions in the leadership and by an influx of hard-to-please new members who have never heard of Democratic Centralism. The other left-int parties—as well as the PARM on the right—are based on a mixture of personalism and ideology. Some have provocative ideas and attractive leaders; none are of any importance on the broad Mexican political scene.

93. Beyond the realm of elective politics, there are a number of small guerrilla or "social bandit" groups in the great tradition of Pancho Villa and other heroes of the Revolution of 1910. The most important of these, at present, is the 23rd of September Communist League. This urban guerrilla group, which has been able to rob a few banks, kill a few policemen, and kidnap or murder a few children of the powerful, was badly hurt by recent actions of the authorities and probably has no more than 50 members throughout the country. Rural guerrilla groups (led by Genaro Vazquez and Lucio Cabanas in the 1960s and 1970s in the state of Guerrero, and by Ruben Jaramillo off and on from the 1920s until he was killed in 1962 in Morelos) are one of the constants of Mexican life. They have little importance in modern, urban Mexico. (It is an interesting comment on the Mexican political mentality that many Mexicans believe that most or all of these armed opposition groups, which in many cases we know to be genuine, are controlled by the (overnment.)

D. Political Stagnation and Political Reform

94. During the coming decade the most dangerous ask that the Mexican Government faces is that of chieving the proper degree of political reform. Government leaders are well aware that, while the work-

ers and peasants are relatively satisfied with Mexican political institutions and processes, the educated middle class is becoming increasingly restive. Moreover, these leaders cannot have forgotten that thwarted middle class demands for limited political concessions from the Diaz dictatorship constituted the initial spark of the Revolution of 1910.

95. The most important attempt at political reform since the 1930s took place early in the presidency of Diaz Ordaz (1964-70). The national president of the PRI, Carlos Madrazo, opened a campaign to create local party primaries in place of the unual system of having delegates and candidates imposed from above. Although the reform had obviously been cleared with Diaz Ordaz, the President did not publicly associate himself with it. When the initiative drew little support from the public and a great deal of condemnation from party members. Diaz Ordaz was able to fire Madrazo and back off from the proposal. (Madrazo died a few years later in an air crash—an event regarded with considerable cynicism by Mexican PRI watchers.)

96. The current President's efforts at political reform have been much more limited. They guarantee a certain number of seats in the lower house to opposition politicians and give slightly more power to the legislature but do not touch the internal workings of the PRI. Although the Loper Portillo reforms will allow more currents of opinion to be voiced in the Chamber of Deputies, they will in no way seopardize the PRI's total control over government. They have failed to catch on with the public—voting was unusually lackluster in the first elections held after the reform was instituted.



E. Dongers

98.

Mexico City

continues to grow at the present rate. Twill contain
25 million inhabitants in 1990, while the Valley of
Mexico does not have the land and water to support
a population of more than about 20 million.

99. This will present an immense political problem. From prehispanic times on, Mexico Gity—or Tencohtitlan—has been the nation's center of culture, excitement, good living, power, and opportunity. Every Mexican considers it his right to go to the expital in order to better himself, to escape past failures, or simply to be part of the action. Mexico City is Rome, Jerusalem, and Mecca rolled into one. No government has ever made a serious attempt to restrict the Mexican citizen's freedom of movement; the extension of government authoritarianism into this area would be without precedent.

100. Some experts believe that, as population presses harder on resources, the quality of life in Mexico City will decline to such an extent that more people will be trying to leave than to enter the area. This seems doubtful. Despite the massive inflow of rural migrants to the squatter settlements around Mexico City, incomes are becoming more equal in the city even as inequality grows in the nation as a whole. This means that, on the average, one will still improve oneself economically by moving to the city. And most migrants best the average-statistics indicate that, when other factors are held constant, migrants to Mexico City advance faster and achieve higher status than native residents. Moreover, the glamour of the capital will remain for years if not decades after economic opportunities disappear and living conditions deteriorate.

101. What then is the government to do? One solution, perhaps the only long-run solution, is to create

other poles of urban growth. This will be difficult. President Lopez Portillo's plan to establish new agroindustrial centers along the coasts will, under the best of circumstances, be only a drop in the bucket by the end of the decade. With regard to already established urban areas, only Monterrey, Guadalaiara, and the border cities have been able to attract an appreciable number of rural-urban migrants. These areas already have serious problems, which would be exacerbated by higher population growth rates. The oil centers of Tabasco, Chiapas, and southern Veracruz as well as some resort areas on the Pacific coast and in Yucatan are currently attracting some migrants, but this flow is more likely to subside than expand as the decade goes on. The other major cities of Mexico, now spurned by migrants, will have to be made more attractive through tax advantages, establishment of industry that is both labor intensive and high paying, and decentralization of some government functions. if the problem is not to get completely out of control by the turn of the century.

oy the turn of the century.

103. Another danger which is always present in the Mexican political system is that of presidential death or incompetence. There is no vice president in the Mexican system; the legiciature has the duty under the constitution to appoint a replacement for a president unable to complete his term of office and. If enough time remains in the term, to hold new elections. The actual result would probably be a severe crisis. The Mexican legislature is used to taking orders, not to making decisions on its own. Moreover, while certain members of the PRI, the cabinet, the bureaucracy, and the labor unions have considerable influence, there are no "kingmakers" in the Mexican system apart from the outgoing president himself.

104. Although when it comes to selecting presidents the Mexican system has at least as good a record as most democracies, the possibility always exists that an unsuitable or incompetent person might be chosen for the table.

IUS. Unemployment, under the best of circumstances, will probably reach 17 percent by 1990. If unexpected economic difficulties arise, the rate could go still higher. This, in and of itself, should not severely strain the system as long as foot opportunities for the educated and politically aware remain plentiful. However, high rates of unemployment in conjunction with other factors could prove dangerous An Instability Checklist

107. The chance that regime-threatening political Instability will arise in Mexico in the 1980s is less than one in ten. Because of this low probability, observers will tend to overlook the signs of such instability if they should appear. This mind-set will be particularly strong among those observers with the most Mexican experience; no matter how bad the situation is, these experts can always remember how the Mexican Covernment overcame worse problems in 1986, or 1859, or whenever. By contrast, some sournalists will continue to predict imminent revolution—as they have every year since the 1930s. The alarmism of the fournalists will further harden the mind-set of the experts, and a real danger exists that the experts will ignore any signals of instability that might come up.

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C O N F L D P N T I A L

CENTRAL INTELLIGENCE AGENCY NATIONAL FOREIGN ASSESSMENT CENTER

12 January 1981

MEMORANDUM

PROSPECTS FOR A NORTH-SOUTH SUMMIT ON INTERNATIONAL ECONOMIC DEVELOPMENT AND COOPERATION

Mexican President Lopes Portillo has staked a great deal of personal prestige on the successful holding of a "mint-summit" in 1981 to discuss North-South sconomic issues. Deadlooked negotiations on related matters at the United Nations, however, have dimmed the prospects for a constructive mini-summit and may force the meeting to be delayed or abandoned altogether. Moreover, the mini-summit proposal and initial preparations threaten to further divide OECD countries and isolate the United States on North-South issues, suen from its allies.

The North-South mini-summit was a key recommendation of the Independent Commission on International Development Leaves (the Brandt Commission) in December 1878. Lopes Portillo and Austrian Chancellor Resisky further endorsed the idea in October 1880, and invited 11 foreign ministers to meet in Vienna in early November to lay the groundwork. In spring 1981, the representatives are scheduled to meet again to set the agenda, timing, and list of participants for the mini-summit. Disagreement among the probable participants on these three matters, however, contributes to uncertainty over whether the mini-summit will be held.

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The Brandt Commission Report

In September 1977, former West German Chancellor Willy Brandt announced that he was inaugurating an "Independent Commission on international Development Issues" to examine "the grave global issues arising from the economic and social disparities of the world community and to suggest ways of promoting adequate solutions to the problems involved in development and in attacking absolute poverty." The Commission was composed of 21 internationally known economists, politicians, and other experts who could present viewpoints independent of established international institutions.

The report of the Brandt Commission was presented in December 1979; its final recommendation stated:

We believe that an essential step. . would be a seemit meeting with leaders from both industrialized and developing nations. Such a seemit should be limited to some 25 leaders who could ensure fair representation of major world groupings, to enable initiatives and concessions to be thrashed out with condor and boldness.

The limited-participation summit was intended to provide a new focus on global problems and give a new impetus for future negotiations. The report acknowledged that the summit discussions could not be binding upon those countries not attending, but it expressed the hope that such a meeting could enhance the prospects for future action on North-South issues.

The United Nations

The Brandt Commission report was received favorably by the world community, but accentum behind the limited summit concept was slow to develop. This was due chiefly to the primacy of orgoing debates in the United Nations on the global commic orner. The General Assembly held its Elevanth Special Session in Market Special Session in the General Assembly held its purpose of launching a comprehensive economic development and cooperation program called the Global Negotiations. The Global Negotiations were intended to generate an integrated framework for international economic relations for the 1980's, with special emphasis on the needs of developing countries.

The special session became deadlocked over procedures and agenda, however, and failed to reach a decision on a framework for the Global Negotiations. The United States, joined by

West Germany and the United Kingdom, opposed the text favored by the Group of 77 (the developing countries' UN caucus) because it could have reduced the autonomy of such UN specialized agencies as the World Bank and International Monetary Fund.

The regular 35th Session of the General Assembly then took up the issue of the Global Negotiations when it convened in mid-September. The president of the General Assembly, Ruediger von Wechmar, took a special interest in the Global Negotiations and invited a select group of UN Ambassadors to meet frequently as "friends of the president" in an effort to hammer out differences and work toward an acceptable agenda and procedure. As discussions dragged on throughout the autumn session, four positions emerged:

- One non-oil-producing LDCs favored an agenda that would give the General Assembly broad authority to discuss the entire range of North-South issues in great detail. This implied that the General Assembly could oversee and direct specific programs of the autonomous, specialized agencies.
- Some OPEC countries favored an agenda that would submerge issues about which they felt defensive, such as energy, in a broad global context, leading to non-detailed discussion without reference to specific programs or institutions. The General Assembly would retain the central authority to guide the negotiations but not to make decisions.
- The United States advocated an agenda that would permit the General Assembly to discuss a more narrow range of North-South issues in a very general manner. The United States insisted that the General Assembly not interfere with the autonomy and integrity of the specialized agencies.
- The European Community proposed an agenda that would specifically itemize a broad range of issues but would delimit the authority of the General Assembly to take action on only those recommendations that could be reached through consensus.

Von Wechmar had hoped that his "friends" would be able to formulate a compromise by the third week in November. The

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General Assembly could then approve the agenda and procedures for the Global Negotiations, which could begin deliberations in January 1981. Well before Von Wechmar's deadline, however, it became apparent that no agreement would be reached and that the momentum behind the Global Negotiations had dissipated.

The Kreisky-Lopez Portillo Initiative

In early October, during the general debate in the General Assembly, Austrian Foreign Minister Pahr recalled the Brandt Commission proposal for a North-South summit and suggested that such a device could rekindle interest in the deadlocked North-South debate. Such a summit had already been discussed during a state visit to Austria by Mexican President Lopez Portillo.

Although a North-South summit was not explicitly linked to the UN debates, the timing and circumstances of Pahr's speech indicated that the summit concept was becoming an integral part of the Global Negotiations process. The summit came to be viewed as a device to prime discussions on North-South issues by establishing an atmosphere of coperation. The mini-summit furthermore would facilitate and sustain interest in the Global Negotiations.

Shortly after Pahr's speech, Kreisky invited 11 foreign ministers to meet in Vienna to discuss convening a North-South summit. Some basic ideas for such a summit had already emerged:

- It should be held outside of the formal United Nations framework.
- * Attendance should be at the head of government or head of state level.
- Participation should be restricted to 20 to 25 countries, representative of various geographical regions and degrees of economic development.
- The summit should make no decisions, but instead focus attention and action on the most vital issues of North-South relations and lend impetus to the Global Negotiations process.
- The summit would be held in Mexico, at the invitation of President Lopez Portillo, sometime in 1981.

Attending the Vienna meeting in November were the foreign ministers, or their representatives, from Algeria, Austria, Canada, the Federal Republic of Germany, France, India, Mexico, Nigeria, Tanzania, Venezuela, and Yugoslavia. Although this group endorsed the mini-summit in principle, agreement could not be reached on the specific details of the agenda and timing. The II representatives, therefore, agreed to reconvene in March 1981, and attempt to draw up the invitation list, agenda, and timing for a mini-summit. Few of the prospective participants have subsequently expressed unequivocal commitment to the North-South summit; most have made the satisfactory resolution of the agenda and timing issues a precondition for their attendance. Failure to find a consensus on these issues would seriously jeopardize the proposed meeting.

Participants

When the 11 foreign ministers reconvene, one of the first orders of business will be to make a final decision on the list of 20 to 25 leaders to be invited. Emphasis will be placed on selecting leaders who represent the various viewpoints of developed countries, OPEC, and non-oil LDCs. There already appears to be a preliminary list of 23 countries.

- Big Five: US, UK, France, West Germany, Japan.
- * Other developed countries: Austriz, Canada, Sweden.
- Asia: Bangladesh, India, Philippines, Saudi Arabia.
- * Africa: Algeria, Ivory Coast, Nigeria, Tanzania.
- * Latin America: Brazil, Guyana, Mexico, Venezuela.
- * Communist: Yugoslavia, USSR, China.

The USSR and China were added as an afterthought, in recognition of their importance in the world community. The assumption was that both would decline to attend on ideological grounds, but the USSR now has indicated that it will reluctantly accept a mini-summit invitation. Should the Soviet premier accept an invitation to attend the summit, his Chinese founterpart might also feel compelled to attend. Some organizers fear that the effect of both Communist countries attending would be to shift attention to Sino-Soviet differences and insert East-West issues into the North-South discussions.

If these two additional OECD countries were invited, reciprocity would require that two more LDCs be included. Not only would this risk upsetting the balance between geographical regions and between OPEC and non-oil-producing LDCs, the addition of four more participants would also increase the size of the summit to 27, which the mini-summit cosponsors consider too large to be effective.

Agenda

As in the discussions in New York over the Glotal Negotiations, there is no agreement on how specific the mini-summit agenda should be. As host, Lopez Portillo favors an unstructured meeting which would not discuss specific issues or events but rather stimulate an atmosphere of good-will and cooperation among the key global leaders. Turning the summit into a type of "rap" session has two advantages. First, it may be unrealistic in any case to expect the heads of government or state to restrict their discussions to a given agenda. Second, and more important, an unstructured summit permits leaders to attend who might otherwise avoid the meeting if especially sensitive issues are explicitly listed on the agenda. Thus, Saudi Arabia and other OPEC states might refuse to attend if the issue of energy price and supply was mentioned specifically. Likewise, the OECD nations might shy away from the summit if the international monetary system was singled out for discussion.

The concept of a general open-ended agenda, however, also carries a drawback. Many countries fear that unless discussion is focused on specific issues the summit will degenerate into recrimination and polemics. The United States has already voiced this fear and stated that it was not disposed to attend a general "gripe" session at which the United States and the other industrialized countries would be blamed for all of the real or imaginary ills of the India World. In addition, should China and the USSR accept the invitation, an unstructured agenda would increase the chance of an East-Mest confrontation at what was designed to be a pragmatic exercise to ease the North-South impasse.

Timing

The final matter that will have to be addressed is timing. The initial timetable discussed at Vienna in

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November assumed that the first round of the lengthy Global Negotiations would begin in January 1981, and that the minisummit would be held after that round. Therefore the "window" for the mini-summit ran from mid-March to September, when the 36th Session of the General Assembly convenes.

There were other considerations, however, which narrowed this window considerably. First, the Third Morid ministers insisted that the summit should be held before the OECD Big Seven Summit scheduled for July in Ottawa. They hoped not only to upstage the Ottawa summit but also to make OECD coordination prior to the mini-summit more difficult. Second, France would not want a North-South summit until after its Presidential elections in April. Finally, the ll aministers in Vienna were acutely aware that US participation in the mini-summit was essential if the meeting were to be successful. Realizing that a new American administration would be assuming power in January, they agreed that the mini-summit should be held at the last possible moment before the Ottawa summit to give the new American President the maximum amount of time to settle into office. The result was a target of the first two weeks in June, with the exact dates to be set at the March meeting of the organizing group. That target has since become increasingly unrealistic.

Prospects for the Summit

For the summit to be held at all, the demands of the following key countries or groups must be met.

- The United States has stated that the President will not attend a mini-summit unless there is convincing evidence that the meeting will be constructive. At the least, this requires that the agenda be structured in a way to minimize polemics and maximize a mutual exchange of ideas and proposals that could later be embodied in concrete programs.
- Saudi Arabia would probably not participate if there were a real chance that specific recommendations would emerge or that energy price and supply were singled out for discussion. The other oil-producing nations (Algeria, Nigeria, and Venezuela) probably would take a similar position.
- Algeria and Yugoslavia insist that the North-South summit be directly linked to the Global Negotiations process of the United Nations; otherwise the mini-summit could fragment the

Group of ?? and reduce the power of their majority at the UN. If the mini-summit came to be viewed as an alternative forum to the Global Negotiations, these key Third Morld countries probably would not attend.

Ironically, because the mini-summit has become inexorably linked to the Global Negotiations, its future is even more uncertain than if it were being considered on its own merits. The 35th session of the UN General Assembly recently recessed for the winter holldays without acting on the Global Negotiations issue. It will reconvene in January, but the difficulties encountered to date make it improbable that a compromise can be found until Mrch, or perhaps as late as May. This logically would pust the mini-summit schedule back to well after the Ottawa summit. That would be unacceptable to the LDCs and might interfere with preparations for the 36th General Assembly session, which begins in September.

Thus, the first real opportunity for the mini-summit would be in fall 1981, concurrent with the General Assembly, or in early 1982. By that time the Global Negotiations will probably either have developed a momentum of their own or will have collapsed altogether. In either case, the mini-summit would have lost its relevance.

Lopez Portillo, however, has staked a good deal of personal and political prestige on successfully convening a North-South summit meeting. If the Global Negotiations appear hopelessly stalemated, he might attempt to once again disassociate the mini-summit from UN discussions and invite a number of countries to participate in a "getting-to-know-you" conference. Such a meeting could still be held around the original June date. Furthermore, the discussions could take place at the level of foreign ministers or personal representatives. That would reduce the imperative for a productive debate but increase the possibility of such a summit turning into a general donnybrook, resulting primarily in assigning guilt for the North-South deadlock.

To Attend or Not to Attend?

If Lopez Portillo decides to convene a North-South meeting, whatever the lovel of representation, each invited participant will have to decide whether or not to attend. Three factors will influence attendance: the state of relations with Mexico, the need to maintain unity among nations with similar interests, and the perception of the general direction of the North-South dialogue.

Because Lopez Portillo has placed so much personal prestige on the success of a mini-summit, a decision not to attend the meeting could create serious problems for that country's bilateral relations with Mexico. The other Latin American countries, especially Brazii and Venezuela, which are known to be indifferent to the idea of a summit, probably would accept rather than risk offending the president of an important Latin American country. India, too, would not want to risk endangering relations with Mexico, from which it recently has begun important oil.

The potential impact on bilateral relations with Mexico is especially problematic for the United States. Because US participation in such a summit is deemed essential for its success, non-participation could affect the whole range of issues which make up US-Mexican relations--from energy to immigrants. Yet, if Mashington were to accept an invitation to a conference which turned into a "gripe-session" aimed against it, the United States still would be cast as the villain, a result that could also seriously damage the US image.

A second factor that will shape the response to a summit invitation is the individual country's relations with the members of its own bloc or group. Some nations in the Group of 77 probably fear that the industrialized states will use the mini-summit to "divide and conquer" the Third World. Some of the more radical members of the Group of 77 probably would oppose any meeting that would strain the group's already tenuous unity. OPEC countries also might perceive a danger to their unity in a limited participation summit. Only four OPEC states-Algeria, Nigeria, Saudi Arabia, and Venezuela-appear on the list of potential participants. Given OPEC's lack of cohesion, these four states will undoubtedly weigh participation in the summit against the likelihood of a jealous reaction from those OPEC members not invited.

The industrialized countries, too, will have to consider the potential consequences of attendance on cooperation in the OECD. Chancellor Schmidt already has spoken enthusiastically about attending a North-South anin-summit. Prime Minister Trudeau also has expressed support for such a meeting. These two Mestern leaders apparently are sufficiently committed enough to the summit idea that they would attend regardless of US participation. This would place the British, French, and Japanese leaders in the uncomfortable position of having to choose sides. Should all Big Six OECD countries attend a summit, internal relations within the organization still could be strained. Some smaller OECD countries already have voiced concern that they are being phased out of OECD

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decision-making by the six most powerful members. Participation by the Big Six in yet another economic summit would only serve to heighten the anxiety of these smaller allies.

Finally, a country's standing in the overall North-South dialogue will greatly influence its decision whether to attend a mini-summit. In recent years, many of the industrialized countries that were initially cool to LDC demands have come to side with the Group of 77 on a number of North-South issues.

Washington will probably find itself increasingly isolated on certain aspects of North-South economic cooperation. Not only would such a development focus considerable pressure on the US in bilateral and multilateral forums, it would also further strain political and economic relations with neighboring states, alliance partners, and Third World countries.

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Case Number:	
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Mexican Policy Toward Central America

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Mexican Policy Toward Central America

An Intelligence Assessment

Mexican Policy Toward Central America

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Key Judgments

Information available as of 15 September 1982 was used in this report.

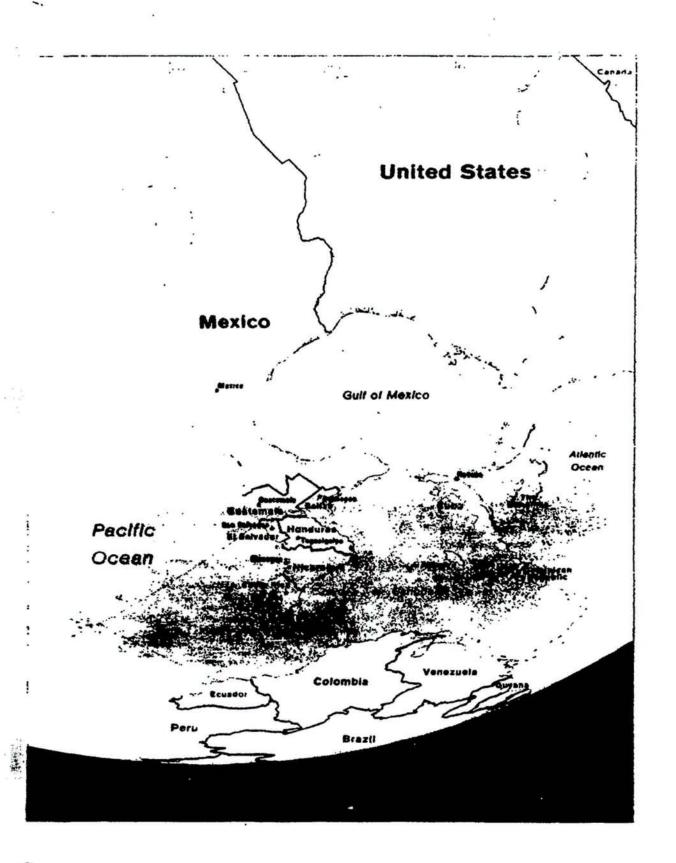
President-elect de la Madrid is publicly on record that he agrees with the basic thrust of his predecessor's approach toward Central America

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ALA 82-10131 September 1982

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Madrid, meanwhile, has signaled his intention to provide a "model of coexistence" in Mexico's relations with Guatemala, and we judge that stepped-up efforts by Mexico to improve border security probably will include greater cooperation with Guatemalan authorities.



Mexican Policy Toward Central America (t:)

Introduction

While Mexico has stopped short of breaking relations with El Salvador, it has gone to some pain to isolate the government

Even following the Salvadoran elections, Mexico continues to back the concept of a negotiated settlement that would grant political participation to the extreme left.

By meeting with Guatemalan leaders—including for mer President Lucas—Lopez Portillo has made sporadic attempts to ease bilateral tensions with Guatemala.

Mexican Reaction to the Central American Crisis

Becent Policies Toward the Region

Mexico has paid relatively less attention to Honduras, although Lopez Portillo has taken an active interest in the transition to elected civilian government.

dent Lopez Portillo and Foreign Secretary Castaneda have publicly expressed their conviction that fundamental social change is inexorably under way in Central America.

Guided by their political philosophy—which resembles that of leftwing European Social Democrats—and their longstanding abhorrence of rightwing military rule, Lopez Portillo and Castaneda have said that they believe most Central Americans will benefit from revolutionary transformation.

They argue, therefore, that a more flexible strategy this time by Western governments will moderate the radicalization of the region.

The onset of Mexico's activism in Central America coincides with the appointment of Jorge Castaneda as Foreign Secretary in May 1979.

Lopez Portillo's nationalization of the domestic banks on I September and his subsequent moves to rally support among leftwing groups in the Institutional Revolutionary Party (PRI) have raised concerns that he will take equally dramatic steps in Central America.

The Likely Course of Mexican Policies

The well-publicized peace initiative that Lopez Portillo unveiled last February—advocating direct US-Nica: guan talks and offering Mexico's good offices—established the framework for Mexico's policy toward Central America through I December when he leaves office. In the midst of Mexico's most serious economic crisis in modern history, Lopez Portillo continues to be buoyed by the international acclaim given his prescription for easing tension in the region.

On El Salvador: 'Today when it is already evident that no other solution [than negotiation] is feasible, our proposal [the Franco-Mexican declaration of August 1981] grows even more realistic and has become a call of alarm."

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On Cuba: "We rejected isolation and strengthened the ties that historically link us to those heroic people. Since 1980 we have carried out secret efforts seeking the end of the absurd silence that prevails between the great nations [the US and Cuba] that are separated by only 150 kilometers of the Caribbean. We have also warned, however, that greatness is not equivalent to either force or size and that the differences between Cuba and the US make reciprocal restraint and responsibility obligatory."

On Lopez Portillo's 21 February peace proposal: "It is evident to all that the alternative to negotiation was and is regional war. We assumed our obligation of doing everything possible to avert the disaster..... No one can ever reproach Mexico for not doing everything possible to avoid the cataclysm."

On Nicaragua: "In good times and in bad, we have remained at the side of our Nicaraguan brothers. Their government, supported by their people, has fulfilled its commitments.... Don't let it be besieged by economic pressures or threatened with armed intervention by artificial dissidents. Leave it alone. To paraphrase Lincoln, I insist that no country is so good that it can intervene in another without its consent."

Currently serving as Ambassador to the US--where he was sent to gain additional experience—the 40-year-old Sepulveda was de la Madrid's chief foreign policy adviser during the early stages of the campaign.

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In his public remarks on foreign policy de la Madrid has emphasized continuity with Mexican tradition and with Lopez Portillo. In January 1982 he said that he wants to maintain an "equilibrium" that will enable Mexico to have "very cordial" relations with the US, as well as "excellent friendships" with Cuba and Nicaragua. Emphasizing that Latin America, and especially Central America, will be his major foreign policy priority, he stated in early June that he would adhere to Mexico's fundamental tenets, namely, self-determination—the right of each country to choose its form of government, opposition to outside intervention, and promotion of peaceful solutions;

Mexico has a duty to provide a "model of coexistence" in its relations with Guatemala and that consequently "our friendship and cooperation will increase."

Implications for the United States

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It is in his public comments on Guatemala that de la Madrid has been the most open in suggesting a probable policy shift. In January he stated that

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Appendix

Mexican Relations With Key Central American Countries During the Lopez Portillo Administration

Nicaragua

The effort by Mexico and Costa Rica to persuade other Latin American governments to cut their diplomatic ties to Somoza succeeded when four other Latin American governments did so. The Mexicans also took the lead in the Organization of American States (OAS) on 23 June 1979 to defeat a US-supported peacekeeping presence in Nicaragua.

After the Sandinistas took power on 19 July 1979, Lopez Portillo quickly sent foreign Secretary Castaneda and party chief Carva-jal to Nicaragua to determine the new government's reconstruction needs.

The Lopez Portillo administration's decision to break relations with Somoza on 20 May 1979—at a time when only Costa Rica had taken such a step—was a major benchmark in Mexico's policy in the region.

Lopez Portillo's Peace Initiative the importance the Mexicans give to the peace initiative that Lopez Portillo announced in Managua has been reflected in their aggressive efforts to implement his proposals

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El Salvador

In his State of the Nation address on I September 1 oper Portillo reaffirmed the importance of his peace proposal, arguing that the alternative to negotiations is regional war.

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Government-to-Government Relations. In sharp contrast to Mexico's supportive policy toward Sandinistaruled Nicaragua, the Lopez Portillo administration has sought to distance Mexico from the governments that have ruled El Salvador since early 1980. Mexico's relations with El Salvador began to deteriorate soon after the collapse of the original junta, which had been established in October 1979 to replace ousted President Romero.

In July 1980 Castaneda implied that Mexico assigned the Salvadoran insurgents a status equal to that of the government by publicly counseling foreign powers not to arm either the rebels or the juntation thereafter he stated that Mexico's willingness to recognize a Salvadoran government-in-exile would depend on insurgent successes in gaining control of territory. By mid-August Mexico had withdrawn its ambassador and replaced him with a charge.

Despite Mexico's increasing efforts to isolate the Salvadoran Government, however, the Lopez Portillo administration stopped short of breaking relations. In November 1980 Mexico agreed to include El Salvador in its oil facility with Venezuela, which covers 30 percent of total oil sold.

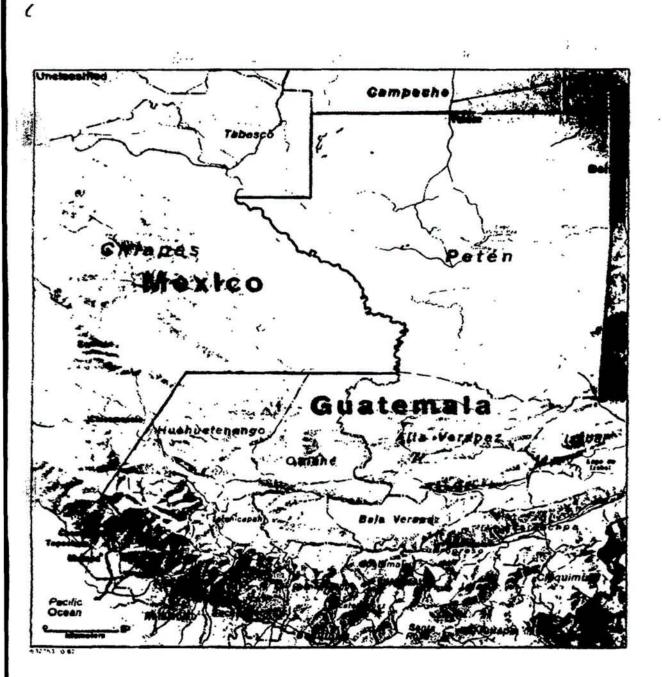
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The joint Franco-Mexican declaration issued on 28 August, which recognized the FDR/FMLN as a "representative political force," constituted a major step in Mexico's effort to give the insurgents equal status with the Salvadoran Government.

Mexico turned to the LN in search of allies in the "decolonization committee" Mexico was trole to find eight other countries, with from Western Europe, to cosponsor a resolution condemning the Salvadoran Government's human rights record and calling for a negotiated settlement. The passage of that resolution on 3 December prompted the OAS to approve by a vote of 22 to 3—with Mexico. Nicaragua, and Grenada casting the negative votes—a resolution endorsing government plans for an election in El Salvador. Undeterred, however, the Mexicans introduced a similar resolution in the UN General Assembly that passed by a wide margin on 16 December

Government-to-Government Relations. Lopez Portillo signaled his intention to use personal diplomacy and promises of closer ties to try to encourage a moderate evolution in Guatemala by meeting with former President Lucas near Tapachula, Mexico, on 18 September 19.9. Lopez Portillo promised that he would soon travel to Guatemala, and both governments agreed to establish working groups to deal with major bilateral issues

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Honduras

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Mexico has given far less attention to Honduras than to other countries in Central America

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In mid-March the president of the mexican employers Confederation stated publicly that incursions of Central American insurgents—particularly Guatemalans—were threatening economic activity in the border region. His call for government action against this threat has been echoed in the conservative press.

Title:	LETTER TO WILLIAM BRADLEY FROM WILLIAM J. CASEY RE YOU RAISED SOME EXTREMELY IM
Abstract:	
Pagest	0001
Pub Date:	9/13/1982
Release Date:	1/10/2002
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Case Number:	F-2000-00150
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Central Intelligence Agency

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Washington D.C. 20505

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Honorable William Bradley United States Senate Washington, D.C. 20510

Dear Senator Bradley:

In your letter of 19 August you raise some extremely important questions about the stability of the international financial system. We too have been concerned about these problems, and the financial crisis in Mexico obviously has increased the vulnerability of the system to major shocks, such as default by a sizable sovereign debtor. Indeed, the Executive Branch is preparing a major study of these issues for presentation at the Cabinet level and with a view to assessing the effectiveness and shortcomings of the present international financial system and to recommending appropriate improvements. We are participating in this interagency study, which is chaired by the Treasury Department.

We are also preparing our own independent assessment of the nature and seriousness of the Lesser Developed Countries (LDCs) and Soviet Bloc debt problems and their implications for the world economy and political stability in the LDCs. As part of this study we will be examining possible risks and impact of major systemic crises. Specific recommendations, however, on such matters as clarification of central bank agreements and creation of new stabilization funds, fall primarily within the expertise and responsibility of the Treasury and Federal Reserve Board. I see the role of intelligence primarily as providing international economic and political perspective based on the collection and analysis of international economic data.

We would be happy to discuss these critical issues with you and your staff and will keep you informed of the progress of the two studies just mentioned. They are due to be completed around the end of September.

Sincerely,

7s/ William J. Casey

William J. Casey Director of Central Intelligence APPROVED FOR RELEASE DATE: JAN 2002

Title:	MEXICO: IMPORT PLUNGE	
Abstract:		
Pages:	0001	
Pub Date:	4/11/1983	
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Case Number:	F-2000-00362	
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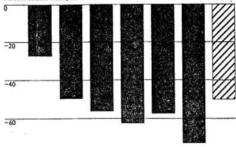


The overall exemptions for this document are (b)(1) and (b)(3).



Mexico: Import Plunge

Percent decline from year earlier



-80	Aug	Sep	Oct	Nov	Dec	Jan	Feb-
1	1982					1983	Aug

*Projected for Feb-Aug 1983

TCS 2785762 11 April 1883

APPROVED FOR RELEASE DATE: SEP 2000

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Abstract:	
Pagest	0001
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Case Number:	F-1990-01477
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Release Decision:	RIPPUB
Classification:	U



MEXICO: Increases in Military Antinercotics Units

The Mexican Army recently expended its role in antinarcotics operations.

This new effort will be mounted in southern poppy-growing areas and will supplement Operation Condor, the military's manual eradication program in the north.

the Army also will take advantage of the eradication campaign to uncover any arms trafficking and guerrilla activities.

Army eradication forces may devote as much effort to internal security as eradication. They do not have their own airlift support capabilities, however, and they may seek helicopters and other equipment from the Attorney General's limited eradication resources.

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Title:	(ESTIMATED PUB DATE) POPULATION, RESOURCES, AND POLITICS IN THE THIRD WORLD: TH
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Population, Resources, and Politics in the Third World: The Long View

An Intelligence Assessment

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Intelligence Sources or Methods Involved

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Dissemination Control	NOFORN (NF)	Not releasable to foreign nationals	
Abbreviations	NOCONTRACT (NC)	Not releasable to contractors or contractor/consultants	
	PROPIN (PR)	Caution-proprietary information involved	
	ORCON (OC)	Dissemination and extraction of information controlled by originator	
	REL	This information has been authorized for release to	
	PG1	Foreign government information	
	WN .	WNINTEL-Intelligence sources or methods involved	





Population, Resources,	and
Politics in the Third	
World: The Long View	

An Intelligence Assessment







Population, Resources, and Politics in the Third World: The Long View

Key Judgments Information available at af 31 December 1983 was used in this report. In this paper we expand upon several lines of research currently under way in the DI to take a speculative look at the Third World in the year 2000. We examine how trends in population, ethnic composition, urbanization, resources, water, and food may impact upon a selected number of cities, countries, and regions of interest to the United States. The momentum behind these trends is great—they will not be halted, and they are unlikely even to be scriously deflected during the next two decades. Their political impact is less certain, however, and present and future policy choices will have an effect in this area. Our approach in examining these trends is illustrative rather than exhaustive

Rapid population growth, in addition to having other harmful effects, can lead to the encroachment of one nation upon the territory of another through migration, war, or colonization. The great and increasing differences in population density (relative to resources) between Mexico and the United States, El Salvador and Honduras, Egypt and the rest of the Arab world, and Vietnam and Kampuchea and Laos will give rise to serious international problems well before the end of the century

A separate set of problems is created by uneven rates of population growth among different ethnic groups within a country. Where population growth creates a discrepancy between the relative size and the relative political strength of an ethnic group, a state of tension is created. In Israel, Lebanon, and elsewhere, we see situations arising in which new majorities will demand greater power while old majorities now in minority positions will fight to retain their privileges. Rapid urbanization, though sometimes politically stabilizing, can have a variety of effects. We believe that the necessity to divert population from Mexico City will be Mexico's most serious problem at the turn of the century; elsewhere the effects of urbanization could range from a loss of political power (Sao Paulo) to a revolt of the middle class (Cairo).

With regard to resources, technological change is steadily reducing the real value of such products as copper, tin, and sugar. Those countries—such aZambia, Bolivia, and Cuba—that depend on these and similar commodities for the bulk of their export earnings could face a substantial and continued reduction in living standards. Other resources, including water and food, will be in increasingly short supply in some areas of the world, and these shortages could lead to international and internal friction. We

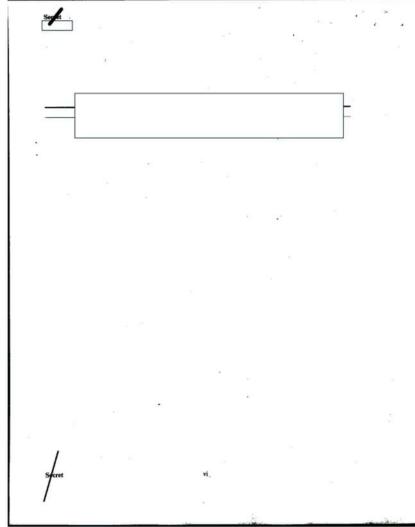




expect serious water-related disputes over the Colorado and the Rio Grande (United States and Mexico), the Jordan and the Litani (Israel and its neighbors), and the Nile (Ethiopia, Sudan, and Egypt). At the same time, natural causes and human mistakes are creating politically destabilizing food shortages in the Sahel and southern Africa.

The deteriorating economic and demographic situation of most of the developing world in the year 2000 will stimulate many Third World leaders to look for political systems that will allow them to control their increasingly unhappy populations. We believe that most of these leaders will see US-style democracy as incapable of dealing effectively with their national problems. Some leaders, even among those who have little sympathy for Marxist ideology, will turn to Communism as a proven method for creating an effective police state. Others will be attracted to the more successful authoritarian states of the Third World, such as Taiwan, South Korea, Singapore, and Mexico. On balance, we believe that the Soviets will find their best opportunities in Sub-Saharan Africa. In the Middle East, probable Soviet losses may not translate into US gains. In Latin America, the rising economic cost of maintaining Cuba may limit the Soviet appetite for meddling.

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Population, Resources,	and
Politics in the Third	
World: The Long View	1

Introduction: The Third World in the Year 2000

The countries of the Third World are often considered to be static areas where, despite superficial revolutions and meaningless wars, nothing really changes. If this description were ever true, which is doubtful, it is no longer true today. Gradual but inexorable changes are taking place, largely unnoticed, and by the year 2000 many Third World countries will be very different in a number of important ways. Moreover, some of the changes will have major implications for the security and well-being of the United States. In this study, we examine six areas of change as they relate to Third World countries of particular importance to US interests. Although this study is based on a solid foundation of past and ongoing DDI research, because of the extended time frame, its conclusions and projections are of necessity more speculative than those of most DI papers. In cases of doubt, we have decided to study the more provocative-and troublesome-of possible outcomes. (

Population Growth: Four Countries That Are Outgrowing Their Borders

Rapid population growth can have a number of different effects, one of the most important of which is the encroachment of one nation upon the territory of another through migration, war, or colonization. The juxtaposition of lightly populated lands (relative to their economic resources) with countries where population is both large and rapidly increasing (and economic resources are limited) gives rise to migrant flows that, although they can be regulated by diplomacy, by the properties of the completely stopped. We will consider four such cases: Mexico and the United States, El Salvador and Honduras, Egypt and the rest of the Arab world, and Vietnam and Kampuchea and Laos.

Mexico

We have made two projections for Mexican population growth between now and the year 2000. Under our low projection, population—now 76 millionwould reach 110 million by the turn of the century; under the high projection, it would reach 126 million. Mexican population thus would probably range between 42 percent and 49 percent of the US population at that time. Population densities would be between 55 and 64 people per square kilometer, compared with roughly 29 people per square kilometer in the United States. Because of the age structure of the Mexican population, the effect of demographic growth on the labor force-that segment of the population most likely to consider entering the United States-will be even greater. At least 41 million, and possibly as many as 46 million, Mexicans will be in the labor force at the end of the century, roughly double the current number. By the turn of the century, if the same percentage of

By the turn of the century, if the same percentage of the labor force chooses to migrate illegally to the United States, the annual flow would be well over 2 million. During the austerity year of 1983, we estimate that 1.5 million Mexicans crossed the US border illegally, compared with an estimated 800,000 to 1,100,000 annually in other recent years. Although the wast majority of these illegal migrants do not remain permanently in the United States at present, this may be changing. As the mix of rural agricultural workers and urban factory and service workers changes in favor of the latter—and this is happening—we expect the percentage of long-term migrants to increase.

In this paper, crude population densities have been used for the comparison of relative population pressures in neighboring countries. A more meaningful density based on land area with some encounce utility could be preferable, but such a measurement in our available on a consistent basis. To be exact, overpopulation or underropositation must be defined in terms of the state of economic development of a country and the economic utility of its land area. The country was not to be consistent of the country and the economic utility of its land area, proceed that the country and the economic utility of the state of the country of th





Other Countries With Population Problems

Most Third World nations are overpopulated, and demographic pressures exacerbate economic and social problems, even if they do not yet present a direct threat to political stability. Only a few countries, such as Brazil, have large sparsely settled areas that can accommodate great increases in people, and even in Brazil filling these areas would entail economic and ecological costs as well as benefits. A few other countries, such as Argentina and Uruguay, have mall population relative to their resources and low population servent present and the stability of the propulation expansion should not be a problem for these nations.

Two countries, Kenya and Syria, are projected to double their populations by the year 2000. A number of other countries will double their populations before 2010. All of these nations will face serious population-driven problems well before that time. In Africa these countries include: Algeria, Benin, Botswana, Comoros, Djibouti, Egypt, Ghana, Ivory Coast, Liberia, Libva, Madagascar, Malawi, Mali, Mauritania, Morocco. Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia, and Zimbabwe. In Asia they include: Bahrain, Bangladesh, Iran, Iraq, Jordan, Kuwait, Maldives, Mongolia, Oman, Pakistan, Qatar, Saudi Arabia, South Yemen, and Vietnam. In Latin America they include: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Peru, St. Vincent, and Venezuela. Elsewhere, they include: Papua New Guinea, Western Samoa, Solomon Islands, and Vanuatu.

El Salvador

El Salvador, with 220 persons per square kilometer, is the most densely populated noninsular nation in the Western Hemisphere; it shares a long border with Honduras, which, with 38 people per square kilometer, is the least densely populated country in Central America. Population pressures that led some 300,000 Salvadorans to emigrate to Honduras between World War II and the late 1960 also contributed to the 1969 "Soccer War" between the two countries. Despite the current convergence of interest between the two conservative, anti-Communist governments, illegal migration continues and a number of border dispoter remain unresolved.

The situation can only get worse in the future. By the end of the century, El Salvador's population, currently 4.7 million, will have grown to 7.4 million, and the population density will be a suffocating 346 persons per square kilometer. Honduras, although growing more rapidly, will still have a density of only 62 persons per square kilometer. Birth control measures, even in the unlikely case that they were adopted on a wide scale, would do little to alleviate the problem between now and the end of the century. Land reform is also at best a partial answer; with 42 percent of its small land area unsuitable for either cultivation or pasturage, there is no way that El Salvador can employ its expanding population in agriculture. Its once-promising industrial sector, largely destroyed by leftist violence that drove out foreign investment, is unlikely to revive soon, even if peace can be achieved. Indeed, the only circumstances that we foresee that could significantly alter the outlook for population increase would be the continuation of El Salvador's internal war at much higher levels of violence.

Egypt
Egypt, with a population of 45.9 million squeezed into

Egypt, with a population of 45.9 million squeezed into a largely arid country where less than 3 percent of the land is suitable for agriculture, has no place to go but out. Unlike Mexico and El Salvador, however, Egypt has not relied upon illegal migration or war but upon the legal export of labor. Egyptian office workers, teachers, doctors, and laborers can be found throughout the Middle East and in Western Europe and North America as well. In 1982 an estimated 1.7 million Egyptians—roughly 13 percent of the labor force—worked abroad. The importance of these workers to the economic viability of Egypt is even greater than their number would suggest; the remittances that these workers and home through official channels—estimated at \$2.3 billion in 1982—are a major source of foreign exchange.

By the year 2000, Egypt's population will number between 70 and 80 million, and the labor force will have nearly doubled to about 22 million. The demand for Egyptian labor abroad, however, will probably have stagnated and may well have declined. The rapid economic growth of the oil-producing countries of the Middle East will have long since moderated and with it the need for Egyptian labor. Competition for those jobs that remain will be heavy. Pakistan, India, Bangladesh, Lebanon, Jordan, Sudan, the Yemens, South Korea, the Philippines, and Thailand have all shown themselves capable of competing with Egypt for the petroleum dollar. We expect that, over the

next two decades, both the competitiveness and the eagerness of many of these countries will increase.

If, at the turn of the century, Egypt is no longer able to export a large portion of its labor force, the effects will probably be felt both in Egypt and throughout the region. Given the relatively high level of education and political awareness of the Egyptian people—including the unemployed—mob-pressured government decisions, rapidly changing administrations, and general political instability are to be expected. An external military adventure is also possible. With a crying need for arable land, a large population, and one of the better military establishments of the Arab world, Cairo might see military conquest as a solution to its problems or at least as a diversion for its people.

Vietnam

Vietnam, like El Salvador, is a densely populated country sharing a long border with an area of much lighter population. In mid-1983, Vietnam's population of 57 million gave it a density of 173 persons per square kilometer. Laos, with a population of 3.6 million, had a density of 15 persons per square kilometer, while Kampuchea, with a population of 6 million, had a density of 33 persons per square kilometer. Although a quest for security, combined with ideological and historical factors, fueled the recent drive to the west, which resulted in a thinly veiled takeover of government in Laos and Kampuchea, areas of Kampuchea have for years been colonized by Vietnamese civilians. This movement, which was reversed during the Pol Pot years, has reemerged and now involves 300,000 to 400,000 people. (S NF)

At the turn of the century, Vietnam is projected to have a population of between 75 and 90 million, which could give it a density of as many as 273 people per square kilometer. During the period, the population of Kampuchea probably will have climbed to only 8.1 million (density 45) and that of Laos to 5.2 million

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³ Although Egypt is one of the most industrialized of Arab states, industry employs only a small portion of the labor force. (U)

(density 22). Thus, from the standpoint of population pressure, Vietnam would continue to have strong incentives to maintain and expand the colonization of the rest of Indochina

The danger that this situation poses for US interests is that what was initially a problem of localized aggression could evolve into a major international confrontation. Given Vietnam's military superiority, it is unlikely that the people of Laos and Kampuchea could effectively oppose Vietnamese imperialism without the active aid of a major power, almost certainly China. In the event of Chinese intervention on a large scale-and no small-scale intervention would deter Hanoi-the Soviet Union would be under pressure to give Vietnam whatever support was needed to counter the Chinese effort. This could take the form of military operations on the Soviet-Chinese border. Although caution and good sense on the part of both China and the USSR may preserve the peace for years or decades, the situation is unlikely to improve. The pressures for Vietnamese colonization will grow in pace with the population. It is a time bomb that cannot be defused.

Population Composition: Three Countries Where Ethnic Change May Drive Politics

In addition to the problems created by rapid population growth in general, there is a separate set of
problems associated with unever nates of population
growth among different ethnic groups in a single
country. In nondemocratic as well as democratic
nations, the size of an ethnic group tends to determine
its political power. Where a discrepancy exists between the relative size and the relative political
strength of a group, a state of tension is created. New
majorities demand greater power, while old majorities
now in minority positions fight to retain their privileges. In extreme situations, this can lead to partition,
revolution, or genocide. We will consider three countries—israel, Lebanon, and South Africa—where
ethnic change could affect political stability.

Israel

Israel, despite being the Jewish homeland, is a multiethnic, multireligious country. Israel proper has a population of a little over 4 million, of which roughly

1.5 million are Jews of American or European origin, 1.8 million are Jews of African or Asian origin, and 0.7 million are non-Jews. An additional 1.2 million non-Jews live on the Israeli-occupied West Bank and Gaza Strip. Outside of Israel and Israeli-occupied territory live some 2 million Palestinians. Almost all of these Palestinians consider Israeli-controlled areas as home, and we estimate that a large portion would return if given the opportunity. Within Israel, the Jewish population is growing at 1.6 percent annually (with the non-Western Jewish population growing much more rapidly than the European-American Jewish population), and the non-Jewish population is growing at 3.1 percent a year. The Palestinian population of the West Bank and Gaza is growing at annual rates of 2.1 and 3.1 percent respectively, while the rate for Palestinians elsewhere is about 2 percent.

By the year 2000, according to Israel's Central Bureau of Statistics, non-Jews will make up 23 percent of the population of Israel proper and 32 percent of that part of the population under the age of 15. If the West Bank and Gaza were to be annexed, this figure would rise to 41 percent, and in the early decades of the 21st century the number of non-Jews would exceed the number of Jews. If a portion of the Palestinian Disspora were allowed to return—probable only under the unlikely occurrence that an autonomy agreement is negotiated for the occupied territories—these trends would be accelerated. At the same time, within the Jewish community the non-Western population would greatly increase its majority

Thus, no matter what policies are followed, Israel will look very different by the end of the century. Even if there is no incorporation of occupied territory, almost a quarter of the Israelis will be non-Jewish and the remaining three-quarters will be heavily non-Western in origin. Under these circumstances, we believe that the close ties between Israel and Western nations and between Israelis and foreign Jews could be weakened, public and private a ide could decrease, living standards could stagnate, and Israel could come more closely to resemble the typical country of the Middle East. On the other hand, if the West Bank and Gaza were annexed, Israel would cease either to be a Jewish state or a democracy

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Other Countries With Ethnic Problems

Most countries of Africa and Asia face a myriad of problems caused by tribal, ethnic, linguistic, and religious divisions. In the majority of these countries, we expect problems to worsen over the next two decades. North-south conflicts in the Sudan; Somali irredentism in Ethiopia; the relationship between the Kikuyu and other groups in Kenya; the division of power among Hausa, Yoruba, and Ibo in Nigeria; the position of the Katangans in Zaire; and the Shona suppression of Ndebele in Zimbabwe are only a few of the ethnic situations that could cause serious political unrest in Africa well before the year 2000.

In Asia, we see continuing dangers in Syria, where the vuling Alawites constitute a small minority of the population; in Saudi Arabia and the Persian Gulf, where large numbers of foreign "guest workers" could press for increased political power and where ancient Persian-Arab, Shia-Sunni conflict could worsen; in Turkey, Iran, and Iraq, where the Kurdish struggle refuses to die; in Patistan, invaded by Pushtun refugees and divided among antagonistic Punjabi, Sindhi, and Baluch; in India, on "empire" where northern Indian, Hindi-speaking Hindus are trying to control a wast number of peoples of different ethnic, religious, and linguistic background; in Sri Lanka, where Sinhalese-Tamil conflict could eventually lead India to intervene; and in the Philippines, where Moros continue their centuries-old battle against Christian central government.

In the Western Hemisphere, by contrast, the ethnic situation is less dangerous. Indians are of political importance only in Mexico, Guatemala, Ecuador, Peru, and Bolivia. In Mexico and Bolivia, while the Indians remain an underclass, they have benefited from land reforms and other "Indigenist" measures of the revolutions of 1910 (Mexico) and 1952 (Bolivia): any dangers they may present will be as members of the peasantry, not as Indians. Despite the efforts of leftist revolutionaries to enlist Guatemala's Indians, they remain politically cautious "risk avoiders," divided by language and custom, and suspicious of each other. While the Indians of Peru and Ecuador have serious grievances, their importance as a political factor will decrease as the non-Indian population grows. Black-white conflict in Brazil may increase but is unlikely to become regime threatening. The same is true of black-Asian conflict in Guyana, Suriname, and some West Indian islands.

Lebanon

In no country have ethnic and religious divisions played a more important role than in Lebanon. Indeed, the relative size of the various groups is of such great political sensitivity that the Lebanese Government has long refused to undertake a census that could be used to justify changes in the allocation of power. The last official census was taken by the French in 1932, and it is suspected by many Lebanese and foreign experts of overcounting the Christian population. By the 1932 count, 30 percent of the population was Maronite Christian, 23 percent was other Christian, 21 percent was Sunni Muslim, 19 percent was Shia Muslim, and the remaining 7 percent was Druze. In the early 1940s, when Lebanon was achieving self-rule and eventual independence, this population distribution was used to allocate political power; certain offices were reserved

for certain sects—for example, the president had to be a Maronite and the prime minister a Sunni Muslim and in the Chamber of Deputies six Christian seats were established for every five non-Christian seats. (c)

This hard shell of government structure has remained in place, while its population base has radically changed. By 1983, according to a recent CLA estimate, the Maronite population had fallen to 17 percent and that of the other Christian sects to 10 percent of the total. At the same time, the Shia population had spiraled to 40 percent, while that of the Sunni had edged up to 26 percent and that of the Druze had remained at 7 percent. Refugees from



Israeli-held territory and later from Jordan swelled the Palestinian population from almost nothing to about 400,000. The resulting imbalance between population and power has been the root cause of civil wars in the 1950s, the 1970s, and the 1980s, while population changes that left Maronite muscle unequal to Maronite pretensions gave rise to three foreign interventions—by the United States in 1958, Syria in 1976, and Israel in 1982—to protect minority Christian interests. Although they may strike up temporary alliances, no two of these groups have the same interests: Sunni do not get along with Shia, non-Maronite Christians have no love for Maronites, Lebanese of all faiths resent Palestinians, and most other sexts distrust the Druze, who are neither Chris-

The future of Lebanon-if Lebanon continues to exist-will almost certainly be one of continued ethnic and religious strife. By the year 2000, the Shiacurrently the most deprived segment of the country, both politically and economically, with strong ties to radical Iran and Libya-will make up at least 45 percent of the population. This group will demand its share of power and then some and find itself in conflict not only with Christians, but also with Sunnis, who for their part will be increasingly resentful over their loss of primacy among Muslims. The Druze and the various Christian sects, faced with the relative declines of their populations, will tend even more than at present to isolate themselves in semitribal enclaves. The Palestinians, assuming that they have found no other home, will drift back into Lebanon in large numbers, as Syria may promote such a move and there will be no central government powerful enough to stop them. Like all other elements of the population, they will be well armed. The Maronites, as ever playing upon their ambiguous heritage as Christian Arabs, will alternately call upon Arab states, Israel, and the West to protect their interests. Neighboring states, and perhaps major powers, may be tempted to intervene. Partition, absorption, and major war must be included among the possible scenarios.

South Africa

tian nor Muslim

Although the already large black majority in South Africa will increase between now and the year 2000, ethnic changes within the white community could be more important in driving political change. The basically undemocratic situation at present, in which 15
percent of the population rules the remaining 85
percent, will not be made appreciably less democratic
when the white population drops to 13 percent at the
end of the centrury. Nor will white ability to dominate
the black majority be seriously undermined by the
small change in relative population sizes. Indeed, if
the Colored and Indian populations were co-opted into
at least a tacit political alliance with whites, those
with a stake in the status quoi in the year 2000 would
constitute 23 percent of the total population—representing a marginal gain for the minority and its
capacity to control the black majority.

Other demographic changes, however, could modify this scenario. The proportion of Afrikaners in total white population is declining as a result of several factors: the Afrikaner birth rate is falling rapidly; intermarriage between Afrikaners and English-speaking whites is increasing, with English generally becoming the dominant language of the offspring; and most white immigrants are English speakers or soon become English speakers. In the past, English speakers, with ties to the rest of the English-speaking world, have been more liberal in political and racial matters than the "cornered" Afrikaners, who feel that they have no homeland other than Africa. At the same time, according to some authorities, tribal divisions within the black population are becoming less important. Until recently, for example, the Xhosa have been the backbone of the African National Congress and other violent revolutionary groups, while the Zulu and other tribes have tended to support nonviolent reformist organizations. Now, however, increasingly large segments of the black population of all tribal origins are reported to be supporting revolutionary movements.

Thus, in the year 2000, the majority of the privileged class could comsist of relatively liberal—by South African standards—English-speaking whites, Coloreds, and Indians. The conservative Afrikaners, though still a majority of the white population and still dominating the political process, would constitute

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only 30 percent of this expan	nded privileged class.
Meanwhile, the black majori	ty may have become both
more unified and more radio	al. In these circum-
stances, many in the privileg	ed class would be more
disposed than ever before bo	th to make far-reaching
compromises and-if compro	omise should fail-to
leave South Africa	

Urbanization: Four Cities Likely To Become Hot Spots

Recent empirical research indicates that, all other things being coual, rapid urbanization is politically stabilizing. Studies in Latin America, Africa, and Asia agree that the rural migrant to the city slums is almost always more contented and supportive of the government than his cousin who remains in rural poverty. Although in general we agree with this characterization of the relationship between urbanization and stability, in this section we will examine four cases—Mexico City, Sao Paulo, Cairo, and Soweto—where "all other things" are not equal, and continued rapid urbanization could lead to serious political unrest (see figure 1)

Mexico City

Urbanization, particularly the rapid growth of greater Mexico City, will be a major political problem for the Mexican Government well before the turn of the century. Greater Mexico City, with some 15 million people, has almost doubled its population since 1970. Each day nearly 1,000 migrants enter the area from the countryside or from other cities. Moreover, the flow appears to be increasing as other cities (such as Guadalajara and Monterrey) that were once major poles of rural-urban migration have lost some of their attraction. If greater Mexico City were to continue growing at recent rates, the population would exceed 25 million by 1990 and 40 million by the year 2000. Even if migration to the Mexico City area were to fall to the national urbanization rate, the area would still have 30 million inhabitants at the turn of the century. Indeed, natural increase alohe-without any migration from the outside-would raise the population to more than 25 million by the year 2000.

All of these scenarios are impossible; given land and water constraints, the Valley of Mexico can only support some 20 million people. Thus, well before the end of the century the Mexican Government must find some combination of carrots and sticks, not only to stop migration to Mexico City, but also to force a part of the native-born population out of the capital. This will be extremely difficult. From pre-Hispanic times. Mexico City has been the nation's center of culture, excitement, good living, power, and opportunity. Every Mexican considers it his right to go to the capital to better himself, to escape past failures, or simply to be part of the action. No government has ever made a serious attempt to restrict the Mexican citizen's freedom of movement; the extension of government authoritarianism into this area would be without precedent

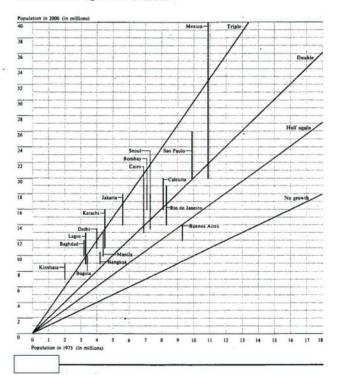
Some experts believe that, as population presses harder on resources, the quality of life in Mexico City will decline to such an extent that more people will be trying to leave than to enter the area. This seems doubtful. Despite the massive inflow of rural migrants to the squatter settlements around Mexico City, incomes are becoming more equal in the city even as inequality grows in the nation as a whole. This means that, on the average, one will still improve oneself economically by moving to the city. And most migrants beat the average-statistics indicate that, when other factors are held constant, migrants to Mexico City advance faster and achieve higher status than native residents. Moreover, the glamour of the capital will remain for years if not decades after economic opportunities disappear and living conditions deteriorate.

Unless other poles of urban growth can be created and this effort would take quantities of time, money, and wisdom that Mexican governments may not have—the only solution is probably to expand the limits of greater Mexico City beyond the Valley of Mexico. Greatly increased tax rates and a crackdown on squatter settlements in the federal district footh





Figure 1 Estimated Growth of Large LDC Cities, 1975-2000



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very costly in political terms) could push even nativeborn residents beyond the valley. At the same time the creation of high-speed transportation links (costly in economic terms) could bring a greatly expanded area into the new, greater Mexico City. These solutions, partial at best, will only buy time, and their implementation could put severe strains on the political system.

Sao Paulo

The problems of urbanization in Brazil are less clear than those of Mexico-in part at least because Brazilian statistics are less complete than their Mexican counterparts-but only slightly less disturbing. Greater Sao Paulo, like Mexico City, has long been a favored destination for migrants from nearby rural areas as well as from distant parts of the country such as the poverty-striken northeast. This seems to be changing. Incomplete statistics indicate that the rate of migration into the southeast has been falling for some time and that migration is steadily becoming less of a factor in Paulino population growth. Moreover, there appears to be a growing current of outmigration to Brazil's frontier states. Nonetheless, net migration remains positive and the city's population, now more than 12 million, continues to grow.

Although most projections show Sao Paulo's population continuing to expand at 4 percent or better through the rest of the century, we suspect that these projections are wrong. We believe that, by the year 2000 or shortly thereafter, Sao Paulo and perhaps other parts of the industrial southeast will exhibit an absolute population decline-much like that experienced by New York and other areas of the industrial northeast of the United States in the 1970s. Our belief is based on several trends now in progress: foreign and domestic industry has begun to locate or relocate in areas of Brazil where wages are lower, government incentives are greater, and unionization is less advanced; growth of the frontier states is accelerating, drawing the ambitious both from Sao Paulo and from areas that once provided migrants to Sao Paulo; and the quality of life in Sao Paulo is declining.

Evidence for this decline in the quality of life may be seen on a number of fronts. Infant mortality rates in Sao Paulo, after having fallen from 160.5 to 69.4 exceptionally good by Brazilian standards—between 1950 and 1965, rose steadily to 94.6 by 1973. Though varying from year to year, they remain well above levels of the early 1960s. Real wages have fallen. For example, the cost of cassava flour, a staple of the Brazilian diet, in terms of hours worked, rose 43.6 percent in Sao Paulo between 1969 and 1976, compared with only 4.5 percent in the nontheastern city of Recife. Other fragmentary statistics reveal increasing deficiencies in housing, potable water, nutrition, and education, as well as increasing crime. Most recently, Sao Paulo has been the site of a number of "hunger riots," in which supermarkets and food warehouses have been looted.

If our scenario is correct and the city of Sao Paulo (and probably some other urban areas of the south-east) begins to lose population around the turn of the century, the accompanying political strains could be considerable. No major shift in relative regional power is easy in-countries such as Brazil where regions are clearly defined and have conflicting interests. If, on the other hand, Sao Paulo continues to grow, urban services and the quality of life will almost certainly continue to fall. This too could lead to political frictions and change, though probably of a less basic nature.

Cales

In the opinion of some experts, Cairo is already on the edge of a civic breakdown. It is the largest urban area in the Middle East and Africa, with a population that has grown from 2 million in 1947 to about 10 million in 1983. Overall density is approaching 25,000 persons per square kilometer, triple that of New York City. In some older neighborhoods, density reaches an incredible 100,000 persons per square kilometer. According to one study, Cairo's urban infrastructure and public facilities are adequate to handle only 2 million people, a fifth of the population. There is a housing shortage of close to 1 million units. Only about twothirds of existing housing is connected to the antiquated public water system. The public sewerage system, which does not reach many sections of the city, is notorious for its breaks, which regularly flood some sections of Cairo. Public collection of solid waste is

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The Problem of the Cities

Pogulation growth projections for most of the largest cities in the LDCs are foreboding. While there is no certainty that this crowding and growing disfunction of urban structures will translate into political instability at national levels, there are many reasons to believe that it will. Each city is a separate case, but there are several perspectives from which all must be examined.

First, there is the magnitude of the problem. Although early estimates are already being revised downward, and the forecasts in this paper may also change, reasonable projections of current trends in migration and natural increase will produce monumental numbers. Jakarta, for example, will have to accommodate an additional population greater than Los Angeles or Chicago in just 16 short years. Many would predict even greater numbers there and in Karachi. Bombay. Cairo, and other key cities.

Next, the socioeconomic and environmental-infrastructural bases on which these numbers will be imposed must be considered. Given the extensive shanty housing, lack of sewer, water, or electrical connections in large areas of Jakarta, Karachi, Lagos, and elsewhere, a doubling in size would leave a majority of citizens without basic services and in even more primitive and anarchic conditions than at present. In Karachi, for example, only 22 percent of households reportedly have water and sewer connections. Research sponsored by the World Bank in the 1970s showed many large Third World cities already had more than 50 percent living in slums and uncontrolled settlements. Because of the continuing high rates of in-migration, conditions in many places have probably worsened, despite local and UN programs in the field of water supply and sanitation.

Perhaps the most telling factors deciding whether rapid population growth translates into political instability will be the efficacy of metropolitan government and the relationathy of the city to the national

government in budgetary, structural, and political terms. Most large Third World cities, especially the capitals, have a cadre of trained professionals in city management and planning, but the bureaucratic, fiscal, and political constraints within which they must function, added to the magnitude of the problem, make increasing failure of authorities to meet minimal needs almost inevitable. Indeed, so long as entry restrictions are not imposed, metropolitan governments are further faced with the dilemma that, if they improve conditions within the city, more people will come. Even now, for example, refugees from civil strife in Bangladesh or rural conditions in eastern India see Calcutta much differently than better off Calcuttans do. If governments act firmly to restrict entry, force exit, and impose other distasteful measures to make these-cities-many of which are capitals-function again, it may be at the expense of whatever democratic institutions that remain, and could lead to civil disorder directed against the authorities. At the present time, most of the Third World countries are placing great hope in voluntary measures such as regional planning that place employment magnets well beyond the city proper and elsewhere within the country to attract migrants now moving into the largest cities. So far these efforts have had limited success in slowing growth.

Last, factors external to the city itself enter into the equation. Many of the swollen LDC megacities exploded in an era of rising commodity prices, and—in some cases—oil revenues, and classic boomtown contitions prevailed. Nobody cared so long as the future looked promising. They are now entering an era when the population growth momentum remains, but the ability of governments to finance batic services has deteriorated sharply, and the squalid realities and economic disparities of life in cities that have grown too fast are apparent to all.



The problems associated with rapid urbanization do

ghettos such as Johannesburg's Soweto. Johannesburg proper, South Africa's largest city with a population

not always hit entire urban areas; they can have a disproportionate effect on sections of a city, especially

of more than 1.5 million, dates only from the late

service. Electrical outages disrupt water pumping stations, sewarge facilities, and traffic lights. Inadequate solid waste collection contributes to blocked sewers and pipeline overflows. Unpaved roads cause residents to use water to control dust, thereby reducing water pressure. Construction work to repair one service frequently interferes with other services, as in the January 1983 case when subway construction severed a water main in central Cairo	1880s. According to official history, it was built around a mining camp in an area completely empty of native peoples. It grew up as a prosperous, largely white city with parks, clean, well-planned streets, skyscrapers, and pleasant residential districts. It would appear to face no extraordinary urbanization problems between now and the turn of the century. The same cannot be said for Johannesburg's black suburbs, the largest of which is Soweto (Southwest Townshio). Greater Soweto, with a poopulation offi-
By the year 2000, Cairo's population will have doubled to 20 million (despite some reduction in internal migration to the city) and its problems will	cially estimated at 1.2 million but believed by many experts to be much higher, has a population density at least twice that of Johannesburg as a whole. And
have worsened. We do not foresee any likely combina- tion of economic prosperity and foreign assistance that would allow the Egyptian Government to keep up	Soweto's population is expected to double before the year 2000.
with Cairo's problems, much less to solve them. Moreover, we expect the deterioration in the quality of life—hitherto most obvious in the poorer sections of the city—to increasingly affect all its inhabitants. Traffic gridlocks, water and electricity outages, sanitation and health problems, flooding, overcrowding, and general frustration will be the lot of the middle classes and even the rich, as well as the poor.	Although Soweto, being based on race rather than social class, has both rich and poor, it is mostly poor and, according to some statistics, getting poorer. In all areas of public service, transportation, bousing, sanitation, health, education, and personal security, Soweto ranks far below Johannesburg. Only 15 percent of the bouses in Soweto have indoor plumbing and 20 to 25 percent have electricity, for example, while living conditions in Johannesburg are equal or
The political risks of this situation are obvious. Cairo, unlike many Third World capitals, is a middle class city. According to one scholar, almost 80 percent of Cairenes rank in the middle class by Egyptian standards (see figure 2). The typical resident—liter-	superior to those of Europe and North America. Despite recent infusions of government money, conditions in Soweto will almost certainly worsen with the increase in population
ate, perhaps even with a university degree—certainly aspires to a middle class lifestyle. During the next two decades, the aspiring middle class could be swelled by the return of many overseas workers and professionals who are accustomed to high wages and (sometimes) superior living conditions in the Persian Gulf coun-	We cannot say for sure how Soweto's urbanization problems will affect political stability; much will depend upon developments elsewhere in South Africa. At a minimum, we would expect occasional outbreaks of frustration like the violent uprising and even more violent repression that took place in Soweto in 1976.
tries and elsewhere. Both old residents and returnees will feel increasingly cheated. It is a truism among	At a maximum, the year 2000 might see Soweto as a de facto independent city-state in a state of semihosti-

woefully inadequate. Street congestion, pollution, and public transportation deficiencies are serious problems

These problems often interact with each other. Inade-

quate water pressure disrupts waste water disposal. Leaking sewer and water lines interfere with electrical

students of political instability that, while the poor

revolutions.

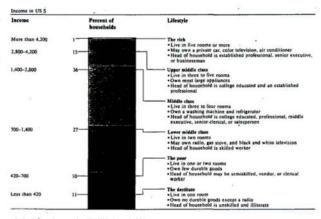
make riots, the politically aware middle classes make

even by Third World standards.

lity with the rest of the country. Sowetans would still



Figure 2 Socioeconomic Classes in Calro*



A prinately fittanced survey conducted in 1979 in sizes works of Culto-consistent to the regeneratory of Cultory population provided informations or relative class positions and income. The Cultor powerty line for 1979 was assumed to be slightly over 1970. The results of this survey apply only to Cultor and should not be generalized to class configuration in order Expris as whole owing to the great connectation in Cultor of provided provided and the provided provi

enter Johannesburg to work, but white South African authority would only be nominally exercised over Soweto. In such a situation, any effective movement to assert South African control would probably country either a siege or a full-scale military attack.

Resources: Three Countries Whose Main Products May Have No Future

Although in the very long term—well beyond the year 2000—the supply of certain resources may present critical problems, such shortages are unlikely during

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the next two decades. Indeed, the problem is likely to be one of overabundance and falling real prices. In this section, we examine three countries—Zambia, Bolivia, and Cuba—whose principal products—copper, tin, and sugar—may be worth much leas at the turn of the century than they are today

Zambia and Copper

The days of rapid growth in copper demand are gone. and prospects for even modest increases to the year 2000 seem poor. While substitution, conservation, and recycling limit demand, output continues to increase. As a result, the real price of copper has fallen to about 40 percent of what it was in 1970. Any marked increase in copper demand is most unlikely to come from the mature economies of the West, where substitution and conservation are farthest advanced and basic infastructure is largely complete. The LDC economies, which provided most of the increase in demand for copper since 1960, are now stagnating and the chances that they will return to the robust growth rates of the 1960s and 1970s are slim. While favorable combinations of circumstances will undoubtedly cause rises in the real price of copper in some fortunate years, the trend will continue downward. By the year 2000, a ton of copper will buy much fewer goods and services than today.

A number of countries, such as Chile and Zaire, are suffering and will continue to suffer from the decline in the copper market, but no country stands to lote as much as Zambia. Zambia depends upon copper for 90 percent of its export earnings, compared with 45 percent for Chile and 40 percent for Zaire. Moreover, unlike Chile, where some diversification of exports is taking place and the share of copper in total exports has fallen sharply. Zambia seems unable to reduce its dependence—when copper export earnings fall, total export carnings tend to fall by a like amount. This is due in large part to the fact that the market for Zambia's second most important export, cobalt, is little better than that for copper.

Zambia has the reputation for being one of the more orderly and pro-Western states of southern Africa; because of the decline in copper, it is unlikely to retain that reputation at the turn of the century. In a Third World country such as Zambia, with strong and independent trade unions and at least somewhat meaningful elections, a ruler needs prosperity—or at least the promise of prosperity—to stay in power. When a convincing promise of prosperity cannot be made—and it will be more and more difficult to make such a promise as the century comes to a close—the leader either falls or stays in power through increasingly less democratic means, often with the help of an outside power such as the Soviet Union. Zambia already appears to have taken the first steps along this path.

Bolivia and Tin

Of all the metals, tin has been the hardest hit by substitution and conservation. Over the past two decades, growth in tin usage has averaged less than 1 percent a year, and in the United States, the world's largest consumer of tin, consumption has actually fallen by about 30 percent since the late 1960s. Aluminum, plassics, and other materials have made substantial advances in tin's major application—canning. Moreover, even where this still used in canning, the amount needed has declined because of advances in electrolytic tinplating. These factors have significantly cut the growth jn in demand, and we expect this trend to intensify as other countries incorporate these technologies.

Bolivia, which depends upon tin for roughly 40 percent of its export earnings, will be harder hit than
most major producers. It is the highest cost producer
because its tin is mined by expensive underground
methods as opposed to the surface methods used by
other major export, natural gas, which currently
provides another 40 percent of export earnings, is
clouded by a number of factors. Even if reserves are
sufficient to allow expansion of natural gas exports to
counteract the effect of declining tin earnings—
something that has not been determined—greatly
increased exports would require costly additions to
pipelines and facilities, as well as increases in Argentine and/or Brazilian demand





Other Countries Threatened With Loss of Commodity Markets

In the years to come. Western demand for basic raw materials is likely to be dampened both by technological change and a movement to more serviceoriented economies. The impact of these changes is likely to be strongest in regions that remain heavily dependent on a few basic raw materials. In Sub-Saharan Africa, for example, the percentage of countries in which three or fewer commodities account for more than half of total exports increased from 61 percent in 1970 to 85 percent in 1977.

Liberia and Mauritania, which depend on iron ore for roughly three-fifths of their total export earnings. could be among the hardest hit of Sub-Saharan countries. This threat stems from a slowdown in the intensity of steel usage in the developed West and from an increase in recycling and substitution. At present, roughly a quarter of all steel in the developed West is recycled. Competition from other products, such as composites, graphites, and plastics is intensifying, and this will also limit demand growth for Iron ore in the years ahead.

Even in regions where exports are less concentrated, individual countries will find themselves in for rough sledding. Countries that depend heavily on the sale of natural fibers for export earnings, for example, will continue to lose market shares to synthetic materials. Bangladesh, where jute accounts for more than 50 percent of export earnings, and Upper Volta and the Yemen Arab Republic, where cotton supplies more than two-fifths of export revenues, will face rapidly declining markets as synthetics gain momentum. Manmade fibers, which represented only 2 percent of total world fiber output in the 1950s, now account for . Sugarcane will produce for a number of years 44 percent of the market. In the United States. synthetics hold 75 percent of the overall textile market. As other countries approach the US level of synthetics use, prospects for natural fibers will further deteriorate.

The decline in export earnings is unlikely to have a great impact either on political stability or on the living conditions of the nation's rural Indian majority-both are already abysmal. (Indeed, over the long run, a decline in the importance of the mining sector and its powerful unions is as likely to bode well as ill for political stability.) Rather, the principal impact on US interests will probably result from a great increase in the production and export of cocaine. Bolivian groups, often with the help of government officials, already produce almost half of the coca paste that eventually reaches the US market in refined form. The possibilities for expansion are virtually unlimited: the cost of producing coca paste in Bolivia is probably somewhat less than in Peru and certainly less than in Colombia, the other main producers. If, as seems possible, cocaine becomes Bolivia's only viable substitute for tin as a foreign exchange earner, many Bolivians who have heretofore abstained from the trade may be forced to adopt it. The nation's small middle class and its politically powerful military could feel that it is the only way to maintain "civilized" living standards

Cuba and Sugar

Except for a few years of major crop failures, world sugar production has consistently outpaced consumption since World War II, and the value of sugar in real terms has trended downward. Areas such as Western Europe that were once net importers are now substantial exporters, and sugar stocks have risen to about 40 percent of global consumption. Overhanging stocks and falling prices have not led to a reduction in output for a variety of reasons:

- · Exporters, especially from "one crop" nations, attempt to maintain total export earnings by increasing production to offset falling prices.
- · Governments encourage production with subsidies
- to protect farm incomes and minimize imports. · Major consuming nations, including the USSR and the United States, pay prices well above those of the world market to selected LDC producers.
- before replanting is necessary.
- . The shift from cane to other crops is often difficult and expensive.
- · Factories built to refine sugar cannot be used for other purposes.





Sugar markets will probably be no better in the future than they were in the past. No major producer in either the developed or developing world is taking steps to cut back production, and most producing countries are encouraging an expansion of output. While exporting countries are making elaborate plans to increase exports, importing countries are establishing programs for self-sufficiency. At the same time, per capita sugar consumption in the developed countries is falling because of changes in diet and increased use of sugar substitutes in soft drinks and other food products. Although total consumption in the Third World is still increasing, the rate of increase should fall steadily between now and the end of the century as the LDCs continue to follow the lead of the industrial nations in adopting sugar substitutes.

No country is as dependent upon sugar as Cuba. Cuba generally produces between 6 million and 8 million tons each year and exports all but about 500,000 tons. Typically, earnings from sugar account for between 80 and 90 percent of total export earnings. Havana has not been able either to break its dependence on sugar or to make effective use of its comparative advantage in this product. Castrós a latempts to diversify the economy have been almost complete failures, while his spasmodic attempts to greatly expand sugar carnings—the "10 million ton" effort in 1970—not only failed to reach their targets but also disrupted other economic activity and lowered sublic morale.

If, as seems likely, Cuba is unable to diversify its exports over the next two decades-and the outlook for other Cuban products such as nickel, tobacco, and fish is not promising-two political outcomes are possible. By the year 2000, greatly expanded world sugar production, combined with limited growth in world consumption, will have lowered real prices on the world market and reduced possibilities for Cuban sales to new buyers. To avoid a marked decline in the Cuban standard of living in this situation, the USSR would have to increase substantially both the price subsidy and the amount of sugar purchased. If the Soviet Union is willing to carry this burden, any post-Castro government would be very reluctant to move out of the Soviet orbit. If, on the other hand, the USSR cannot or will not continue to subsidize the Cuban economy at ever higher costs, the Soviet-Cuban link would be progressively weakened. Under

these circumstances (and assuming that the USSR does not occupy the island militarily), a post-Castro government could be tempted to make a radical change in foreign policy if it were assured of adequate economic benefits elsewhere

Water: Three Areas Unitedand Divided-by River Systems

In arid areas of the world, including parts of the US west, water has long been a source of conflict. Today, the quantity and quality of water available have become an international issue. During the next two decades, as population pressures increase, demand for water for agriculture, industry, and human consumption will also increase, and water-related conflicts will almost certainly intensify. In this section, we examine three regions where the sharing of water could become an overrishing political problem: United States-Mexico, Syria-Lebanon-Jordan-Israel, and Ethiopia-Sudan-Egryll

United States-Mexico

Two rivers-the Rio Grande and the Colorado-are of vital importance to vast areas of both Mexico and the United States. This fact lies behind a century of both friction and cooperation, magnanimous gestures and petty foot-dragging, demagogy and statesmanship. The principal bones of contention are: territory, water supply, and pollution. Territorial issues arise when a change in the course of a river leaves US land and population on the Mexican side of the river or vice versa. Water supply issues arise when Mexico claims that US farms, industries, and population are using more than their "fair" share of the joint supply. Pollution issues arise when usage in one country affects water purity in the other. All of these issues have been repeatedly "solved" in a series of treaties beginning in 1884. It is safe to predict that all will have to be "solved" again in the future under economic, demographic, and ecological conditions that will make achievement of even partial solutions much more difficult than in the past



The territory problem is perhaps the most soluble. According to the most recent treaty (1970), when a river changes its channel and shifts not more than 617.76 acres and 100 inhabitants from one side of the river to the other, the country from which the tract is separated has the right to restore the river to its original channel within three years. If restoration is not performed, sovereignty passes to the other country with the original country receiving later compensation of an equal area elsewhere on the river. If the separated tracts exceed the area or population requirements, the two nations will jointly restore the river. In practice, the difficulties of finding equal areas elsewhere on the river and the expenses of rechanneling the river will probably lead to more frictions and additional treaties.

Most future problems are likely to arise in the related areas of water supply and water quality. Mexico is almost certain to consider present supply agreements. based largely on past usage, inadequate as Mexican population, industry, and agriculture expand in the border region. The issue of ground water, which is unregulated by treaty, will become increasingly important. Salinity problems, especially in the Colorado, have already caused serious disputes, not least because even a temporary solution would require the construction of very expensive projects in the United States that would almost exclusively benefit Mexico. Water pollution is an issue that cuts both ways, however. Sewage from Mexican cities affects US cities in many border areas. The New River, for example, which rises in Mexico and flows through California's Imperial Valley is so badly polluted that US health officials have predicted epidemics. Given the huge costs of the measures required to combat salinity and pollution and the financial constraints on both Mexico and the United States, these problems are likely to worsen.

In the year 2000, water conflicts will almost certainly reinforce whatever other differences may exist between Mexico and the United States. Despite efforts by both Washington and Mexico City, It has proved almost impossible to depoliticize the water issue. Politically powerful local interests on both sides of the border that have been directly hurt by water problems often see politicization of the issue as the only means to move the foreign policy establishments of their

Other River Systems That Could Become Focuses of Conflict

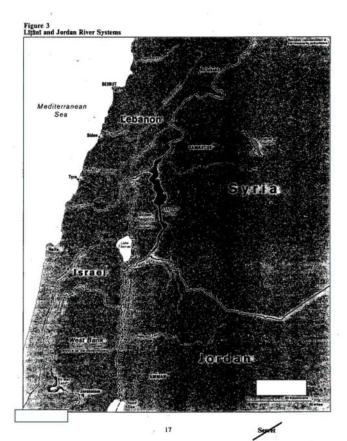
Aside from the three cases we examine in the body of the paper, we do not believe that water disputes will become major sources of friction in the absence of other causes of conflict. There are, however, a few troublesome situations that should be watched. The use of the waters of the River Plate-Parano-Paraguay system for irrigation, navigation, and power generation has long been a source of dispute between Areenting and Brazil. As Brazil continues to build dams on the upper part of the system to supply its growing power needs-and in so doing exerts an increasing hegemony over Paraguay-Buenos Aires could come to feel that its interests are seriously threatened. Another South American "water" dispute that is likely to continue to cause international problems is Bolivia's demand for an outlet to the sea. Elsewhere in the world, we would not be surprised to see continuing conflict between Bangladesh and India over the Ganges. Disputes are also likely among Turkey, Syria, and Iraq over water usage and boundary questions related to the Euphrates River system.

respective governments. Moreover, as past experience has shown, presumed threats to the health and employment of masses of people in either country are by their nature emotion laden and easy to dramatize.

Syria-Lebanon-Jordan-Israel

The four countries tied together by the Jordan River system share a tangle of historical claims, a proclivity for violence, a metual hatred, and, not least, water. As a result, water rights have been the subject of endless disputes that have even led to military strikes and threats of strikes on each other's water facilities. Syria and Lebanon, which control most of the headwaters of the Jordan, attempted to cut water supplies to their enemies in Israel for political reasons but were thwarted by Israeli aistrikes. Israel uses the lion's share of Jordan's waters and has long wanted to divert







the waters of Lebanon's Litani for its own use. Jordan and Israel, though complaining heatedly about each other's water consumption and practices, begrudgingly accept the duty to share water

We doubt, however, that this standoff will continue over the next two decades. Israel's military victories on the Golan Heights and in Lebanon have given it control over the Litani and most of the northern tributaries of the Jordan. Its demand for water is projected to grow by at least 30 percent between now and the turn of the century. There are only two ways that Israel can obtain all the additional water it believes it needs: by constructing extremely expensive facilities for desalinization, reclamation of waste water, and the like, or by taking water that is now used by Lebanon or Jordan.' Tel Aviv is proud of its technically very efficient use of water and regards its neighbors as being wasteful of this resource. Some Israelis appear to believe that this more efficient usage gives Israel the right to water now being "wasted" by the Arabs and are pushing Tel Aviv to take the second course. Given the expense and uncertainties of the first course and the economic constraints that Israel faces, we believe that the temptation to take the second course could eventually prove irresistible. Indeed, it has already taken this course with regard to much ground water formerly controlled by West Bank Arabs.

By the year 2000, if not long before, the water problem will begin to affect US interests. (Indeed, the United States aiready finds itself in the uncomfortable position of go-between in Israeli-Jordanian water disputes.) Jordanian demand for water has aiready grown beyond available supplies, and Lebanon plans to use all its resources when the security situation permits. Although these two nations could obtain some additional water through the construction of dams and other facilities and the use of more efficient methods, they—like Israel—will be constrained financially from making the huge investments required to greatly increase supplies. In this situation, unless foreign donors are willing to finance extensive water projects in one or more of the nations, any advances.

by Israel are likely to be made at the direct expense of its neighbors. All of the countries involved may well request US or Arab aid. We believe, however, that the richer Arab countries would be very reductant to finance projects that could be seen as condoming an increased share of water for Israel. If US financing is not available—and perhaps even if it is—water resources would give Israel additional incentive to maintain its occupation of (or to reoccupy) foreign territory

Ethiopia-Sudan-Egypt

It is a truism that Egypt and, to a lesser extent, Sudan owe their existence to the Nile. The Nile is the basis of agriculture in both countries and supplies nearly all of the household and industrial water needs of Feynt and more than half of those of Sudan. Although the two countries have peacefully shared Nile water under a series of agreements since 1929, requirements are growing and both countries must either find new sources of water or sharply improve their management of existing resources. Egypt's gross water requirements, for example, are expected to rise between 16 and 25 percent by the year 2000. Given the already intensive use of the waters of the lower Nile, any attempt to meet these needs fully would require that Cairo not only take unilateral measures-better management of drainage water. higher water charges, and introduction of better irrigation systems-but also join with Khartoum in a number of very expensive projects-canals, dams, and reservoirs-to shift unused water from the swamps of southern Sudan to the thirsty north.

The water supplies of both Egypt and Sudan face a potential threat from Ethiopia, which controls the headwaters of the rivers that together provide about 85 percent of the Nile's total annual flow. Ethiopia has not participated in any Nile water-sharing agreement and has gone on record to affirm the right of any riparian state, in the absence of a formal international agreement, to unilaterally develop the water resources within its boundaries. Although at present Ethiopia uses relatively little Nile water and does not have the technical or financial resources to undertake the types of projects that would divert major amounts of water.

Surfet

^{&#}x27;Syria is already making increasing use of Jordan tributaries to expand farming in its southern region, further impinging upon the water supplies of both Jordan and Israel and further complicating the problem



Figure 4 The Nile Basin





it could at some point in the future receive powerful help from the Soriet Union. Ethiopia is a quasi-Marxist ally of the USSR and an enemy of Sudan and Egypt; it is certainly conceivable that Moscow might be tempted to reward Addis Adaba for its friendship and punish Cairo and Khartoum for their rejection. This would be all the more tempting because Moscow could portray the project as a humanitarian effort to help a needy country develop the means to feed its masses.

The waters of the Nile are so essential to Egyptian life that we have no doubt that Caire would be willing to go to war to protect its rights in this area. In the worst of cases, Soviet citizens or even Soviet troops could become involved—a development that could also draw in the United States. Under a different set of circumstances, Cairo might see itself obliged to intervene militarily in Sudan if Khartoum faced a revolt in those southern areas where joint water projects were under construction.

Food: Two Regions Where Food Could Become a Major Political Factor

In sharp contrast to other areas of the developing world, where food supplies are increasing, per capita food production in Sub-Saharna Africa has fallen by more than 20 percent from its 1961-65 average; caloric intake is well below nutritional requirements and is getting worse. This reflects not only persistent climatic problems and technological and management failures, but also the highest population growth rate for any region of the Third World. Food shortages and rising prices, which have already sparked political turmoil from Liberia to Madagascar, will almost certainly worsen over the next two decades. In this section we consider two very different regions of the continent—the Sahel and southern Africa—where we expect food problems to have a political impact—

The Sahel

In no part of Africa has the food problem hit as hard as in the Sahel, an area that includes Cape Verde, Chad, The Gambia, Mali, Mauritania, Niger, Senegal, and Upper Volta. Most of these nations rank among Africa's poorest in terms of nutrition, education, per capita income, and other indicators of social and economic well-being. The northern parts of Mauritania, Mall, Niger, and Chad are desert, with little or no agricultural or pastoral potential. The southern parts of these countries and much of Senegal and Upper Volta form a semiarid savannah suitable mostly for pastorage. The Gambia, small areas of southern Senegal and Upper Volta, and the extreme south of Chad constitute the only part of the Sahel with a reasonably favorable climate for such crops as millet, sorghum, corn, cassava, peanuts, and cotton, no country is more than a quarter of the land suitable for cultivation; in most countries it is well under 15 percent!

The situation is rapidly worsening. From the late 1960s through the mid-1970s, the area suffered a drought that many climatologists believe is part of a long-term fundamental shift that will render much of the region uninhabitable by the turn of the century. Since the end of the six-year, Sahel-wide drought, smaller areas of the region have been hit by severe droughts of shorter duration. In effect, according to some authorities, the Sahara has been encroaching upon the savannah and the savannah upon the agricultural area at a rate of several kilometers a year. At the same time, the number of people the land must support is rapidly increasing. The total population of the eight countries, 31.7 million in 1980, is projected to reach 55.8 million in the year 2000, a 76-percent increase.

The worsening food-population problem is almost certain to affect political stability and US interests. As northern pastoralists more south to escape starvation—some 100,000 are said to have died in a single year during the drought of the early 1970s—their herds will speed the desertification of the savannah through overgrazing. Food imports, already high in most of the area, will have to rise at a time when the countries will be increasingly hard pressed to produce the agricultural exports—peanuts and cotton—needed to pay for them. Requests for massive food aid from the West are likely. Moreover, as the northerners—whose ethnic, religious, and cultural makeup is often different from that of the southerners—more

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The Food Situation Elsewhere in the Third World

Beyond the Sub-Saharan region, Third World food availability increased dramatically between 1960 and 1980. At the beginning of this period, less than 40 percent of the 54 countries surveyed met the World Health Organization's recommended minimum percapita requirement of 2,300 calories a day and only six nations consumed significantly more [110 percent of these countries surpassed the minimum and nearly half consumed more than 2500 calories per person per day. Nonetheless, the average daily caloric consumption in these countries remains less than 110 percent of the minimum, well below the 131-percent average enjoyed by the industrial market countries.

Projections of food availability to the end of the century are unavailable. If present trends continue, the average level of daily per capita calorie consumption among these countries could exceed the minimum requirement by a substantial margin. However, recent World Bank figures indicate that, in spite of strong growth in agricultural production, the average index of per capita food production during 1978-80 was lower in 33 of the survey countries—including such nations as Egypt, Iraq, Jamaica, Jordan, Peru, and Uruguay—than it was in 1969-71. Rapid population growth, coupled with increased consumption, is outpacing the growth in food production.

The estimates for minimum caloric needs in the aggregate—for a nation as a whole—are minimums indeed. The distribution of food to all households and the affordability of sufficient quantities of food to meet the requirements of poorer segments of the population are likely to be highly uneven. Whether current levels of caloric consumption are above or below the recommended minimum, all of the developing world will need to increase either food production or food imports by substantial margins if they are to satisfy the needs of the year 2000.

south, both intrastate and interstate conflict become probable. In this situation, radical Libyans or others may be tempted to step in and "help" one or another party.

Southern Africa

The countries of southern Africa-Botswana, Lesotho, Madagascar, Malawi, Mozambique, Namibia, Swaziland, Zambia, and Zimbabwe-are better off in almost every respect than those of the Sahel. Life expectancy, infant mortality rates, nutrition levels, per capita incomes, and education generally are relatively good within the African context, though considerable differences exist among the states. Areas of these countries are considered among the most suitable in Africa for production of beef, rice, sorghum, corn, millet, tobacco, tea, and sugar. Commercial farming is advanced in countries such as Zimbabwe, Zambia, Malawi, Mozambique, and Swaziland, Moreover, unlike much of Africa, nonagricultural activities such as mining in many of the countries and manufacturing in Zimbabwe are well developed. Urbanization is also relatively high, with one southern African country, Zambia, having the highest rate of all of black Africal

Now, however, a number of factors-internal and external, natural and manmade-are combining to create serious food problems. Only two countries, Malawi and Zimbabwe, remain self-sufficient in food, and the outlook even for these two is not promising. The other countries are increasingly dependent on food imports from a semihostile Republic of South Africa. The reasons for this situation are many. Civil war, guerrilla activity, and South African military operations are disrupting agriculture in most of the larger states. The departure of the Portuguese from Mozambique and the ambiguous status of the large, white-owned farms in Zimbabwe are bringing about serious management problems and some decapitalization of agriculture. State management of formerly private commerical farms in Madagascar and Mozambique has resulted in a sharp fall in production. Traditional communal grazing in Botswana, Lesotho, and Swaziland has led to considerable ecological damage. Governments in mineral-exporting states such as Zambia and Botswana have neglected agricultural investment. Virtually all countries in the area have discouraged farm output by attempting to hold down food prices for their large urban populations. Agricultural infrastructure has been allowed to





deteriorate, breeding stock has been killed, and livestock diseases long under control are making a virulent comeback. In addition to all this, occasional droughts greatly worsen the situation of all countries and force even self-sufficient Zimbabwe and Malawi to import food

We do not expect the situation in most southern African countries to improve over the next two decades. Although most of southern Africa's food problems-unlike those of the Sahel-are man made. this does not greatly improve the outlook for their solution. White expertise and agricultural capital are not likely to pour back into the area. Tribal and ideological conflicts are likely to continue to take their toll of farms and farmers. South Africa probably will continue to make trouble on a selective basis. Scarce funds will continue to be spent to pacify volatile urban populations and interest groups, rather than to support agriculture. And the area's population will soar by 86 percent, to 78.6 million, by the turn of the century. A few countries, through an extraordinary combination of good luck and wise policy, may do well, but southern Africa as a whole is almost certain to be worse off in the year 2000 than it is today.

We expect this to affect US interests in two ways. First, the United States and other Western countries will be pressed to supply food aid and very possibly to finance major water and agricultural projects. Second, a number of what are now independent nations are likely to lose a large measure of their sowereignty to South Africa. Most of the food that these countries will require in increasing quantities will either be produced in South Africa or be imported through South African ports. Likewise, most of the exports—be they minerals, tobacco, or labor—that these countries must sell to buy their food will go either to or through South Africa. Such economic dependence is incompatible with political independence.

Implications for the United States

Our examination of trends in the Third World through the year 2000 has been of necessity illustrative rather than exhaustive. Thus, we are in no position to spell out in great detail the implications for the United States. US interests in the Third World will depend not only on what happens in that area, but also on developments at home, in the Communist world, and among the developed nations of the West. Unforesceable changes in leadership, technology, and coology anywhere in the world could have an impact on what the United States needs from and can give to the various developing nations. Some things, however, can be said. In this section, we point out a few places where the various trends that we have discussed may reinforce or counteract each other in ways that could affect US interests. We also make some very tentative predictions about the overall political climate of the Third World in the year 2000.

Putting It All Together

The US relationship with Mexico may encompass the most important complex of problems that the US Government will face in the year 2000. The Mexican Government will face in the year 2000. The Mexican Government's need to divert population from greater Mexico City, by force if necessary, will impact upon migrant flows across the US border—which will already be sharply up for demographic reasons—as well as upon political stability in the US backyard. At the same time, water and pollution problems along the border could exacerbate bilateral relations while driving unwanted migrants both to overcrowded Mexico City and into the United States.

The most important US allies in the Middle East may be in a much worse position both economically and politically than they are today. Egypt, beaet with destabilizing population and urbanization pressures, may push outward in military adventures or succumb to revolution. Water-related problems with Sudan or, more likely. Ethiopia could easily become the pretext for war. Israel, increasingly less Western and very possibly less democratic, could be in ethnic and religious turmoil as relative populations change. It will almost certainly be in conflict with other US friends such as Jordan and Lebanon over the waters of the Jordan and the Litani. Lebanon, for its part. may no longer exist as an independent state.

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US neighbors and friends elsewhere may be in no better shape. Demographic differences are likely to overcome political and ideological similarities and drive El Salvador and Honduras into conflict and possibly war. The resulting refugee flows would add to Mexico's complex of problems as well as swell the influx across the US border. Other states of the Western Hemisphere, of which Bolivia is a good example, may see their raw material exports become increasingly worthless. A number of African nations such as Zambis may be in a similar situation.

The Republic of South Africa and its neighbors will be subject to a variety of conflicting currents. Demographic change within the white and black communities may make the white (or rather "nonblack") group more liberal and the black group more radical. An English-speaking white-Colored-Indian coalition may be more disposed either to compromise or to fight than the old Boer-controlled minority, while the black majority would be more disposed to fight than to coexist. Black townships such as Soweto could become flashpoints. At the same time, white South Africa would be in a much more advantageous position with regard to neighboring black nations, which will be increasingly dependent upon Pretoria for food and trade links. The declining real value of copper will make Zambia doubly vulnerable.

Problems and opportunities will also arise in the Communist Third World. Post-Castro Cuba, dependent upon sugar sales in a chronically depressed world market might well be willing to auction off its political loyalty to whichever superpower is ready and able to support an economic basket case. On the other side of the world, overpopulated Vietnam will probably be expanding into underpopulated Laos and Kampuchea—and perhaps bringing the Soviet Union and China to the brink of war.

The Political Climate in the Year 2000

The political climate in the Third World in the year 2000 may make the preservation and propagation of democracy in that area even more difficult than it is today. Although many Third World leaders and peoples will continue to admire the US political system—and especially the US economy and standard of living—the danger is that they will see it not only as impossible to achieve but also as counterproductive with respect to solving their most pressing demographic and economic problems.

Compared with the Western democracies and the Communist states, most countries of the Third World have extremely weak governments. Typically their leaders, even their most brutal dictators, have little effective power. Their legislatures and judiciaries have even less. The typical president must spend all his energy trying to stay on top of an uneasy coalition of interest groups; he has no time to advance the cause of the nation, even if he has the wisdom and desire to do so. He must bribe with opportunities or with unaffordable arms not only generals, but also colonels and even NCOs. Religious leaders, tribal chiefs. students, landowners, local capitalists, union bosses, the urban mob, police death squads, the IMF, multinational corporations, the press, and representatives of foreign powers may have an effective veto over presidential action. And these are the government's supporters. Enemies-guerrillas in the mountains, subversives in the university, perhaps ideological opponents within the president's own party-want not only to bring down the ruler, but to destroy the state itself.

Under these circumstances, it is not surprising that few Third World leaders have opted for democracy. They apparently believe that political and economic power are already too diffused for effective government and that to diffuse it still more would be to invite anarchy. As the century comes to a close and many countries begin to suffer increasing demographic, resource, and economic pressures of the types that we have described in this paper, we suspect that leaders will be even more refluctant to consider any experiment that might further undermine their already shaly control over the political process.

Some leaders may well be tempted by the Communist system. In most cases, this will not be because they have failed to notice the injustices and failures of Communist states throughout the world. These leaders who opt for Communism "with their eyes open" may not even have much sympathy for Marxist



ideology. What they will be seeking in Communism is a proven method of controlling their own people, for allowing decisions to be enforced, for avoiding anarchy in the face of insurmountable economic problems. Unlike Third World idealists of an earlier era who were attracted to Communism, these hard-beaded leaders will not be looking for utopia but rather for an effective police state.

Other Third World leaders, especially those who cannot stomach totalitarianism in any form, may be attracted to the more successful authoritarian systems. At present, these include Mexico, Taiwan, South Korea, Singapore, and perhaps a few others. By the year 2000, some of these may have fallen by the wayside. The Mexican system may not be able to stand up to the complex of problems we have outlined in this paper. Taiwan may fall under the shadow of China. South Korea could come apart because of its still sloppy succession mechanism. Based on their past record, however, most of these states will still be around and doing well in Third World terms. These countries, unlike the Communist states, promise economic progress, considerable diversity, and a large measure of personal freedom, And, unlike such Third World democracies and "failed" authoritarian states as Venezuela and Argentina, they also promise the high degree of public discipline required to enforce unpopular but necessary economic measures over an extended period of time.

Implications for US-Soviet Competition

Although the situation in the Third World in the year 2000 will present advantages and disadvantages for both the Soviet Union and the United States, internal developments and policy mistakes could limit either country's ability to make use of the advantages presented. In this section, we will examine these advantages and disadvantages, the opportunities for meddling, and some possible outcomes. We do not, however, have room in this paper to examine all the factors that could play a role in the actual outcomes.

As we mentioned in the previous section, many Third World leaders will look to the Communist model of police state as a means of controlling their populations in a deteriorating economic and demographic environment. We are already seeing the popularity of Cuban bodyguards, East German intelligence advisers, and Communist-style neighborhood security organizations with Third World leaders who may have little deep identification with Communist ideology. The negative side of this for the USSR is that Communist troops, technicians, and advisers are usually detested wherever they go. Countries such as Egypt that have once had large numbers of Soviet personnel within their borders are unlikey to again filtr with the Soviets once they have broken free.

On balance, we think that the Soviets will find their best opportunities in Sub-Saharan Africa. We believe that many African countries will be drawn to the USSR for the following reasons:

- Unlike in Asia and Latin America, there are no outstanding "successful authoritarian" states in the region to serve as alternate models.
- US association with South Africa will continue to alienate black Africans.
- Conditions in some countries will have deteriorated too far to be turned around with reasonable
 amounts of economic aid (the West's strength).
- Local leaders will see police-state measures (the Soviet strength) as their best chance to maintain control.

In the event that the Angolan Communist regime were decisively defeated by UNITA despite massive Soviet and Cuban support, the Communist attraction for Sub-Saharan leaders would be considerably lessened.

In the Middle East, the Soviets may lose ground. Iraq, and very possibly Syria and South Yemen, may go the way of Egypt as the Soviet presence becomes more onerous and other sources of military aid become available. The passing of Khomenin and possibly Qadhafi will probably lead to regimes in Iran and Libya that are more open to Western influence; we doubt that either country would move into the Soviet camp in the absence of Soviet military action. The USSR's losses will not translate into unequivocal gains for the United States. Our strongest friends in the area—Israel, Egypt, Saudi Arabia, Jordan, and Lebanon—may all be weaker than today and some

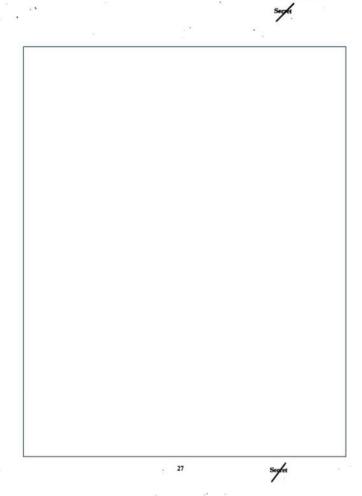


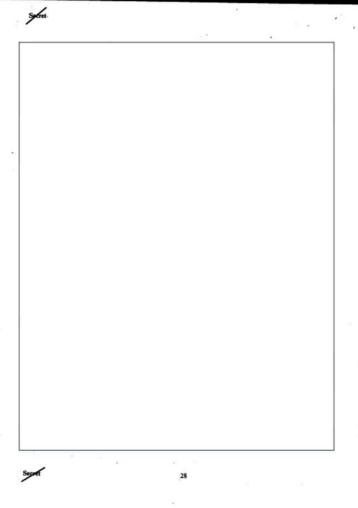


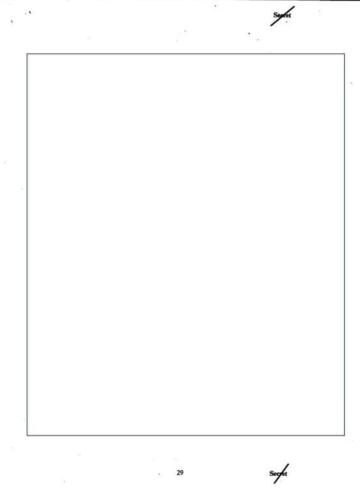
may be distancing themselves from the United States.

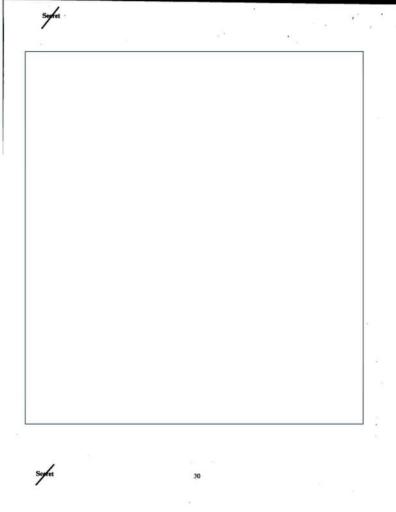
In South Asia, there is a slim possibility that the
Soviets could make major gains in either India or
Pakistan; much will depend on the results of the
fighting in Afghanistan.

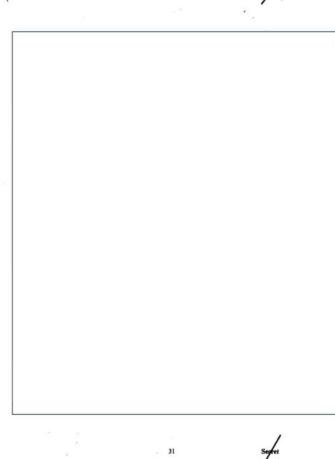
In Latin America, the USSR probably will be able to maintain its position in Cuba-and perhaps in Nicaragua, if that is not decided in the next year or so-as long as it is willing to pay the increasing economic price. There is a good chance that the economic costs will prove so great as to limit the Soviet appetite for extensive meddling in this hemisphere. The Soviets will, of course, take anything that falls into their lap, but little is likely to. We believe that most Latin American states will be more attracted by the "successful authoritarian" model than by the Communist model. Most of these countries will try to maintain a distance from the United States as well, and conflicts will be frequent. The US democratic model may be seen as increasingly less relevant to Latin needs, with democracies such as Venezuela, Colombia, and Costa Rica assuming a more authoritarian cast. At the same time, in many countries the domestic private sector-probably a necessary base for US-style democracy-may see its position greatly eroded by better financed state enterprises and multinational corporations as an indirect result of conditions set by the international banking community.



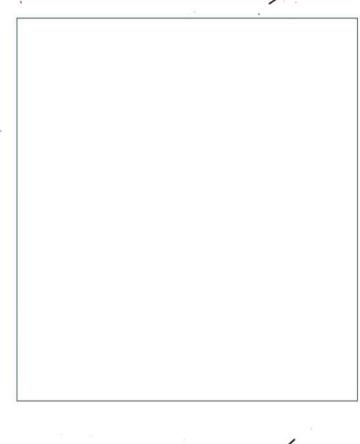


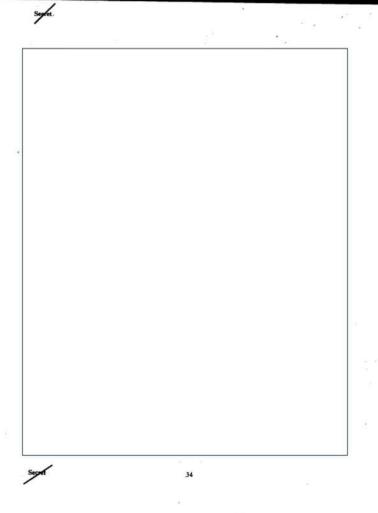




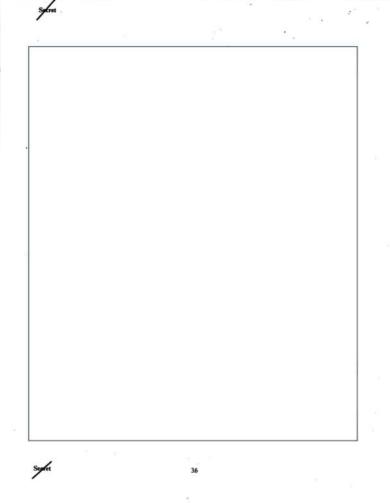


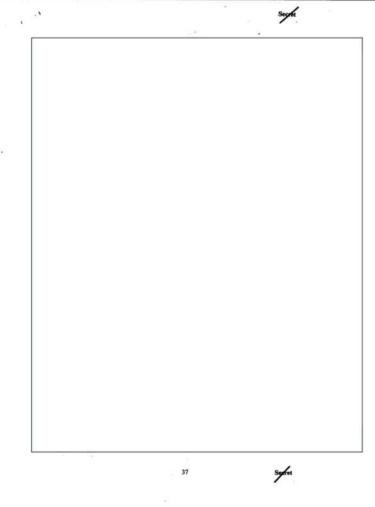
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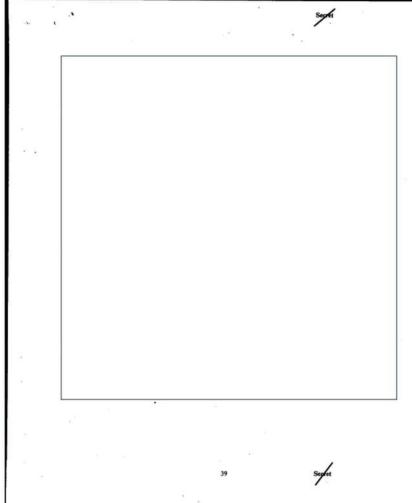


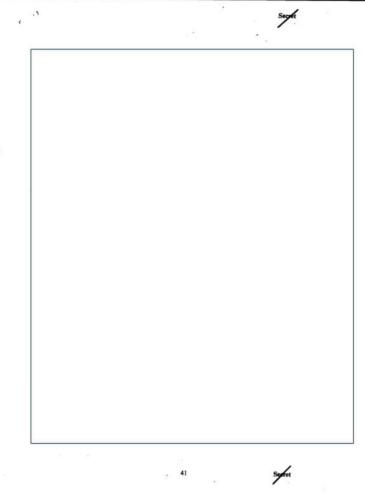


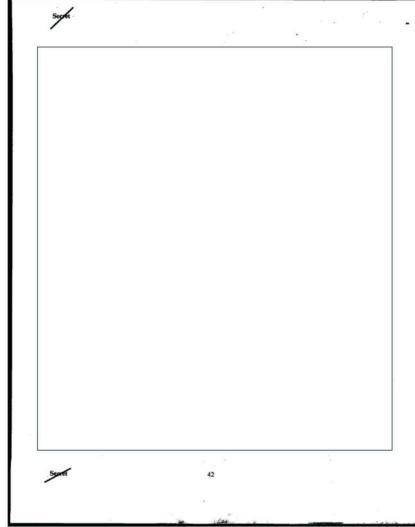


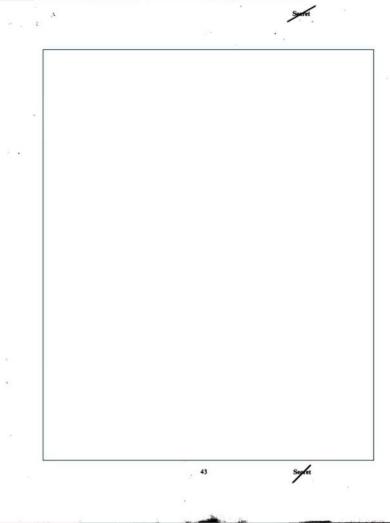


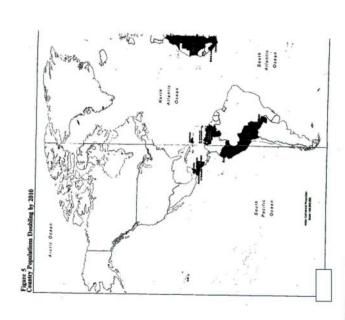
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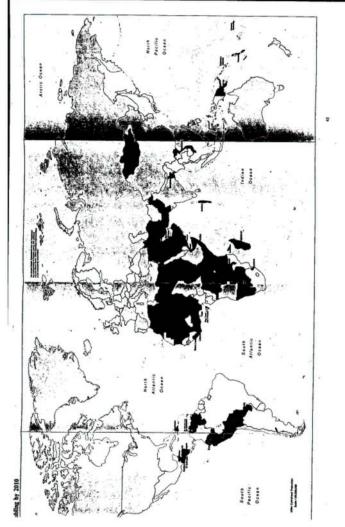












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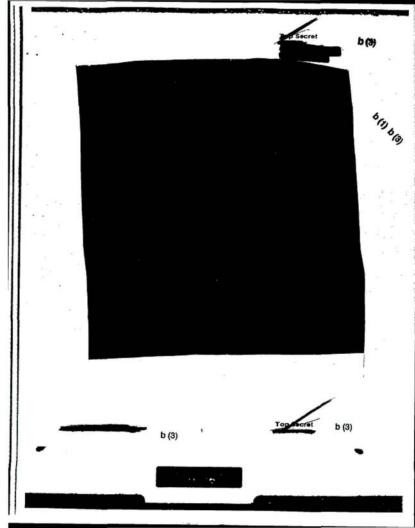
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LEBANON: Political Gestures Toward Christians

Shia and Druze militiamen are reasserting control over Palestinian fighters and the Sunni Murabitun militia in West Beirut probably is an attempt to enforce the cease-fire and facilitate talks with the Christian milita.

b (3) Druze leader Junblatt and Amal chief Barri publicly repudiated Lebanon's traditional political processes after the talks in Lausanne. Both have called for direct negotiations with the Christian Lebanese Forces milita. They have backed away from their earlier statements that a return to violence is inevitable, and they are now expressing

hopes that the cease-fire will hold. that closer ties between the Murabitun' b (3) and Palestinian dissidents had become a major hindrance to Shia and Druze political initiative and control of West Beirut, Undisciplined Murabitun and Palestinian fighters were breaking the cease-fire and

accused of other disruptive activities.//

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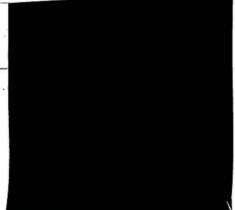
The overture by the Shias and the Durze to the Lebanese Forces has been received favorably by representatives of the Christian militia in Beirut. Both sides may welcome a breathing space and enforce the cease-fire until new strategies evolve. They probably see the suppression of milities they consider marginal as a necessary first step.

Syria lost prestige when the talks in Lausanne failed. As a result, Demascus is likely to hold down the level of violence in order to claim. that it has a positive influence in Lebanon.

There is no effective mechanism, however, for policing the ceasefire. The security situation thus will remain unstable even if there are no new military offensives.

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SURINAME: Financial Problems

to reach almost \$200 million.//

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The economic consequences of the monthlong strike by bauxite workers have added a new sense of urgency to Paramaribo's search for foreign assistance.

b (1) b (3) with the suspension of other revenue-raising measures as part of the strike settlement, the budget deficit this year is expected b (3)

b (3) growing concern among Surinamese businessmen that the Central Bank will be unable to provide foreign exchange for imports. The government already has suspended all Import licenses issued before August 1983, and some Importers have been denied new licenses. b (3) been denied new licenses.

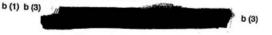
> Paramaribo has falled to secure any substantial amount of hard currency assistance since December 1982. Government officials are counting on a quick infusion of IMF funds.

Army Commander Bouterse recently announced that the government will ensure the rational allocation of foreign exchange, reduce spending, increase tax revenues, and encourage private Investment to cope with the economic difficulties.

> The businessmen's concarns are likely to increase if Paramaribo drains credit available to the private sector by financing the budget deficit largely with Central Bank loans, as it did last year. Foreign exchange reserves probably can cover less than one month's worth of imports, and even tighter import restrictions will be necessary.

Bouterse may lack the resolve or political dexterity to institute the unpopular austerity measures needed to obtain IMF funds any time

USSR: Problems in Training Reservists



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If Soviet taws permit at least five callups of each reservist for training.

Bowever, shows that the typical Soviet preservist is mobilized only once or twice.

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: //Soviet combat units in Central Europe, which would conduct the initial campaign against NATO, do not rely héavily on reservists and their combat effectiveness would not be strongly affected.

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Nonetheless, the Soviets are unlikely to alter their current reserve training system. Additional training would increase costs and draw manpower away from civillan sectors.//

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b (3)

SUDAN: Reaction to Bombing

b (3)
government broadcasting facility last week has aroused little concern
about Libyan intentions among most Sudanese. Some believe that
Egypt and Sudan staged the Incident to emberrass Libyan leader
Qadhaff. The Sudanese with believe Libya perpetrated the attack
are less concerned about Qadhaff's Intentions than about the
Ineffectiveness of the Sudanese milliary. An anti-Libyan rally held by
the government party the day after the attack drew only 600 people.

b (3)

//The attack appears to have had little effect on popular support for the Nimeirl government. The lowering of public confidence in the military, however, probably will depress Army moral further. In addition, insurgents in southern Sudan may be encouraged to expand their operations.//

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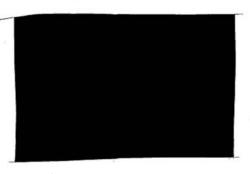
SOUTHERN AFRICA: Military and Political Developments

South Africa and Mozambique appear to be carrying out the terms of their except accurity agreement.

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Tanzania President Nyerera, who is chairman of the Frontline Steas, persuaded the other Frontline leaders to boycott the signing of the security agreement last week. The leaders probably will feel obliged to voice strong support for SWAPO and the ANC to offset increasing public sentiment that the insurent groups have been betrayed by Angola and Mozambique. They also are likely to endorse the strong conditions for a Cuban troop withdrawal stated in the recent Angolan-Cuban communique. Nonetheless, the group probably will offer at least sukewarm backing for the Angolan and Mozambican disloques with South Africa.

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MEXICO-COSTA RICA: Financial Assistance

Messoo has loaned Costa Rico. \$50 million, an amount that San-Jose callers is necessary to ever technical default on its foreign bank debt. The loan is scheduled to be repaid by mid-June, and the second of the second of the second of the second of the Mesdoo is insisting that its financial support should not be publicized to avoid problems with its creditors. Costs Rica also has reached preliminary agreement with the IMF on a standby loan for the year. (2) 183

b (3)

b (3) with Mexico last year, and his efforts are paying off, Mexico City has long insisted that the economic ald it extends in not politically motivated. This loan may be intended to restore the appearance of fairness because other Central American countries are sware of Mexico's substantial aid to Nicaragua. The loan probably will be enough to allow Cost Rica to make payments on its foreign commercial debt for the next few months, but will merely delay a foreign exchange crists until midsummer.

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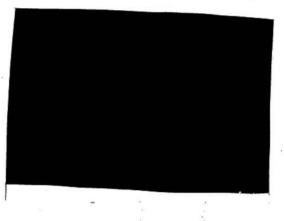
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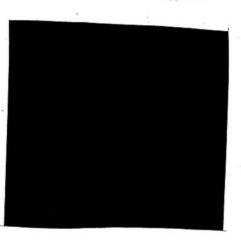




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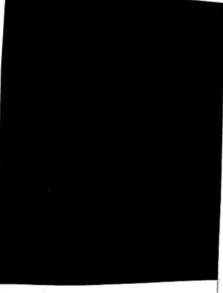
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THE OUTLOOK FOR MEXICO

Information available as of 25 April 1984 was used in the preparation of this Estimate.





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DISCUSSION

- 1. Until the foreign exchange crisis and economic collapse in 1982, Mexico was perhaps the most unqualified success story in the developing world. From its inception in the late 1920s and 1930s, the country's unique political system had provided over 50 years of relative social tranquillity, political stability, and economic growth. Since 1934, nine presidents have served in regular succession, wielding and vielding power according to elaborate constitutional and informal rules that are rooted in 150 years of the country's myth and history. Unlike most Latin American countries. furthermore, there have been no military interventions, serious coup plots, strong guerrilla or terrorist movements, or large outbursts of antiregime violence. Unlike all of them too, in Mexico the economy grew with few lean years and at impressive high rates for a half century until 1981. In fact, with an average annual growth rate of over 6 percent during those decades, cumulative material gains in Mexico were among the highest achieved anywhere in the developing world. The prospects for economic development and diversification were buoyed in the late 1970s, furthermore, when Mexico's extensive newly discovered oil reserves began to be exploited.
- 2. Pressures on former President Lopez Portillo to increase public spending became irresistible after Mexico became a net oil exporter, but the former President's tendency toward grandiose scheming contributed significantly to the disastrous boom and bust cycle that followed. Mexico pursued a development strategy in large part dependent on massive public investment of oil revenues. As public expenditures burgeoned, pushing growth rates to as high as 8 and 9 percent annually, the economy began to overheat in the late 1970s. Inflation mounted, the peso became highly overvalued, and the competitiveness of Mexico's nonoil exports was undermined. Foreign borrowing was stepped up to compensate for soaring current account deficits even as interest rates were rising. Lopez Portillo stubbornly refused to devalue the peso until 1982, and foreign exchange policies served as a positive inducement to expital flight. Billions of dollars were expatriated as Mexicans deposited, invested, and spent lavishly abroad. The foreign exchange and debt

- crisis that Loper Portillo acknowledged in August 1982, and his nationalization of the country's private banks the following month, strongly undermined the private sector.
- 3. Inaugurated President in December 1982. Miguel de la Madrid inherited a crisis more encomnassing than any since the late 1930s. Under conditions of harsh austerity, high unemployment and underemployment, double- or triple-digit inflation, widespread business failures, and a crippling shortage of capital. the economy contracted by about 6 percent in 1983. Virtually all social and economic groups have had to accept declining standards of living, scale down their expectations, and compete for benefits and opportunities in a negative sum economic environment. De la Madrid has struggled to preserve social equilibrium and to restore public confidence in the political system. In particular, he has endeavored to distance himself from the egregious corruption and failures of Lopez Portillo and other senior officials of the last government. By pursuing an anticorruption campaign that has included the imprisonment of at least one former high official and revelations of abuses by others, and by projecting an image of fairness, competence, and probity, the President so far has provided generally effective and popular leadership.
- 4. De la Madrid's most striking success has been in engineering a turnaround in Mexico's international economic accounts. In a little over a year, austerity has brought spending in line with available resources. inflation has begun to decline, and some confidence in the government's policies has been restored. By slashing imports and public-sector expenditures, raising the real costs of most goods, and making other tough adjustments the regime has met most of the stabilization requirements of the International Monetary Fund (IMF). Interest is being paid on the more than \$85 billion foreign debt, and by the end of 1983 the current account surplus reached about \$4 billion. With some flexibility to increase imports of badly needed capital and intermediate goods, Mexico probably will be able to stem the decline in economic activity and may begin recovery this year. This progress has been achieved, moreover, without engendering any serious





Principal Cities and Administrative Units



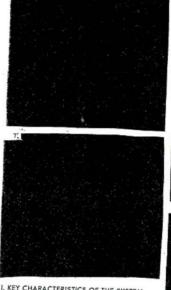
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social disruptions or ruptures in the "revolutionary family" of groups that support the regime.









monopoly of power.

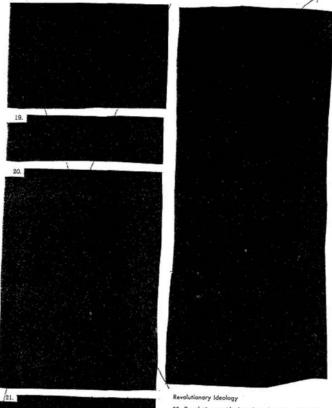
sive force. Traditionally, the system has demonstrated resiliency and adaptability by adjusting to new circumstances, co-opting newly arising dissident factions, and claiming to represent and satisfy nearly all major interest groups. The regime's total control over patronage and the apportionment of material rewards has been perhaps its most powerful asset in preserving its

I. KEY CHARACTERISTICS OF THE SYSTEM

8. Mexico's political system, one of the most complex and inscrutable in the developing world, has monopolized power for over five decades. Presidents serve for six years with enormous powers that are largely derived from their control of both the hegemonic PRI and the large federal bureaucracy. Government leaders and party bosses have been skilled in employing a pragmatic mix of policies and tacties: tacking as necessary in changing political winds; adjusting the balance of political power among elite groups; isolating dissidents; manipulating the media; upholding a high degree of secreey and mystery in the system; maintaining a monopoly of repressive power; and exercising exclusive rights to the "revolutionary" ideals that provide the system legitimacy as a progres-



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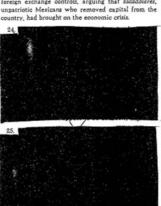


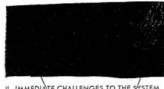
22. Revolutionary ideology has played an essential role in the political process and culture. Deriving from a panoply of myths and accomplishments associated

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with the Revolution and its aftermath, this ideology provides a framework and a set of egalitarian standards that give legitimacy to the system. Fought in large part by and for Indians, peasants, and the working class generally, the Mexican Revolution gave impetus to decades of reforms that have realigned relationships among the country's social groups. For the first time since the Spanish conquest, the Indian peoples and their rich heritage were nourished officially as the very essence of the Mexican identity. Aztec heroes were lionized, Indian art and architecture exalted, and Indian characteristics and culture came to suffuse the national consciousness.

23. 'In contrast to this "revolutionary" hagiography are the many foreign intruders and enemies-Spanish conquistadors. French imperial pretenders, and assorted interlopers from the United States-all of whom are seen as having injured and exploited the rightful owners of Mexico's resources. Even more vilified than such "predatory" outsiders are the Mexican traitors who conspired with the foreigners. They are known specifically as molinches after the Indian woman who translated for Cortes. Lopez Portillo provided the most recent example of revolutionary demagoguery when he nationalized the private banks and imposed tough foreign exchange controls, arguing that sacadolares, country, had brought on the economic crisis.



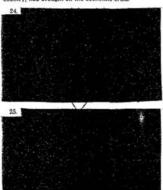


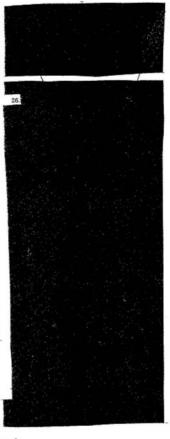
II. IMMEDIATE CHALLENGES TO THE SYSTEM



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A. Economic Stringencies and Constraints

27. President de la Madrid's tough austerity measures have eased considerably the immediate financial crisis he inherited, but have not solved Mexico's deep structural problems. By bringing Mexico's foreign financial accounts fargely into balance and by initiaing some economic reforms, he has helped the country regain some access to foreign capital markets. But in the near term, these sever adjustments have been accompanied by a sharp decline in economic activity and sharply reduced living standards. Last year, CDP fell 6 percent as wages and government spending were slashed, consumer subsidies reduced, price controls relaxed, and the pens sharply devalued.

28. To continue making progress, de la Madrid will have to hold the economy on a relatively tight leash well into his administration. If he holds fast to austerity to lay a sound foundation for eventual economic recovery, inflation would be reduced, the foreign exchange rate would begin to stabilize, and financial independence would be partially regained through restraining the expansion of the debt service burden. Accompanying such a policy, however, would be further unemployment' and a postponement in any improvement in living standards.

29. His task will not be easy. De la Madrid will be under pressure to attack unemployment through a faster rebound in industrial production even not the cost of continued high inflation and expanded foreign debt. He will also have to weigh demands for less restrictive investment and trade controls to reduce the number of bankrupteies of inefficient domestic firms and show he has not forfeited control of national decisionmaking authority.



31. In attempting to steer through this maze of problems, de la Madrid and his advisers will be suided, we believe, by four basic economic objectives, each backed by various political elites and command-

ing wide support among the populace. These goals, however, cannot all be achieved simultaneously.

02. Price and Exchange Stability. The current priority concern of the government is to reestablish stable prices and to strengthen the peso. Traditionally, relatively stable prices and eschange rates facilitated rising consumption and living standards. Since 1982, however, hyperinflation has shaved off one-third of real wages and has led to a sharp drop in the peso. Loss foreign purchasing power has had an especially deleter rious impact on middle-class groups who, during the years of oil-fueled growth, became accustomed to spending overvalued pesos for foreign luxury and consumer goods. De la Madrid's comment in a press conference last October that "inflation is the most serious problem facing the country" indicates his continuing commitment to this key objective.

33. Financial Independence. The second imperative of government economic policy is that of adjusting domestic seeding to levels that can be supported by domestic resources. De la Madrid's current austerity policies are aimed at regaining financial independence by ending the need for "mastive new loans" and honoring past commitments. This has led to a greatly reduced foreign borrowing program and delaying loan of drawdowns when possible. De la Madrid is scaling back development projects and increasing local taxes in an effort to pay government debt and capital purchases out of domestic savings.

34. Economic Recovery and New Jobs. Mexican leaders realize that economic performance must begin to improve soon if key constituencies in the "revolutionary family" are to remain gulescent and if new employment opportunities are to be created. Only with economic recovery can the conditions be created for economic mobility and openings for ambitious Mexicans of all classes who might otherwise become threats to the system.

35. Belanced Mixed Economy. Mexican decisionmakers are in many ways as concerned about how the economy grows as how fast it does. Development strategy has long reflected the overriding principle of economic nationalism, characterized by protectionism, restrictions on foreign investment, and conservation of natural—and especially oil—resourcer. These attitudes have resulted in the rapidly expanding role of government and large public enterprises in the economy. Nevertheless, Mexico's private sector continues to provide the bulk of employment and, under the strictures imposed by the IMF program, the private sector will

..

 have to generate the lobs to satisfy rapid expansion of the labor force.

Different Approaches

36. Économic trends and policies during the rest of the 1880s will be determined in large part by the compromises and trade-offs among the basic economic objectives made by de la Madrid and his successor. While we project two approaches, we believe actual policies and trends will fall somewhere between the two. In the first case, de la Madrid could relax austerity and reflate the economy soon in response to growing political pressures and social unrest, but this course would probably lead to recurrent financial crises. Alternatively, he could continue to follow a tough stabilization program, followed by years of restrained growth.



40. To make tough decisions on macroeconomic issues even more complex for de la Madrid and his advisers, much will depend on factors beyond their control. A setback in the current world economic recovery, a fall in oil prices, or a deterioration in the international lending climate-perhaps brought on by a debt default in another country-could boost world interest rates, undermine demand for Mexican exports. and constrict credit availability. Under such circumstances Mexican policymakers' options would be severely restricted. On the other hand, a major disruption in world oil supplies-brought on by conflict in the Persian Gulf area, for instance-could temporarily boost Mexico's oil revenues and allow increased imports for a time without aggravating foreign payments problems.

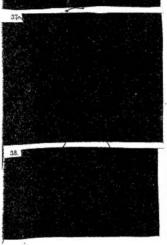




Figure 3 Major Population Centers in Northern Mexico





B. The Conservative Opposition

42. Although greater Mexico City has grown at rapid rates—and is now home to more than 15 million people—the two dozen next largest cities have expanded at similar and even higher rates. The most spectacular growth has been in the northern tier states, where 12 of the country's 25 largest cities are located within 250 miles of the US border (see figure 3 and table 2). By 1980 each of these cities had grown to over a quarter of a million people. During the 1970s their average rate of growth was about 12 percent higher than Mexico City's, and we estimate that together they now account for nearly 9 percent of the national population, a share that will increase to 12 percent by the end of the decade if recent high rates of expansion

persist. Six of the largest eitles—from Tijuana on the Pacific to Matamoros on the Gulf of Mexico—are on the border with the United States, and all have doubled or nearly doubled in size since 1970 while becoming increasingly vibrant as commercial and industrial centers and funnels for contacts with the United States.

43. The flow of people and economic activity into the northern border regions has considerable political significance. Most of the growth has been the result of private-sector initiatives and of commerce and other exchange with the United States. With the exceptions of Hermosillo and Tampico, which have benefited considerably from national government efforts to decentralize economic activity in regional development zones, the northern tier cities have seeminally grown primarily as a result of "pull" forces from the United States rather than planning in Mexico City, Monterrey, Mexico's premier center of private-sector industrial activity, has grown rapidly, while major entrepots like Cludad Juace, Mexicali, and Tijuana were trans-



Table 2 Urbanization in Mexico

	Population of the 25 Largest Cities * (Thousands)				Annual Growth Rate (Percent)
	1960	1970	1980	1990 (estimated)*	1970-80 •
Federal District 4	4,871	- 6,874	9,991	14,507	3.8
Guadalajara, Jalisco	737	1,194	2,178	3,975	4.2
Monterrey, Nuevo Leon	597	858	1,702	3,380	7.1
Puchla, Puchla	289	401	771	1,475	6.7
Ciudad Juarez, Chihuahua	262	407	680	1,140	5.3
Leon, Guanajuato	210	365	596	971	5.0
Tijuana, Baja California Norte	152	277	542	1,056	6.9
Mexicali, Baja California Norte	175	267	495	920	6.4
Tampico, Tamaulipas	123	180	425	1,013	9.0
Torreon, Coahuila	180	223	416	774	6.4
Chihuahua, Chihuahua	150	257	402	630	4.6
Merida, Yucatan	171	212	344	560	5.0
San Luis Potosi, San Luis Potosi	160	230	338	495	3.9
Acapulco (De Juarez), Guerrero	\$5	174	335	647	6.8
Verseruz, Verseruz	145	214	333	517	4.5
Hermosillo, Sonora	96	176	304	788	10.0
Cuernavaca, Morelos	37	134	295	649	8.2
Culican, Sinalos	85	168	281	471	5.3
Nuevo Laredo, Tamaulipas	93	149	272	496	6.2
Matamoros, Tamaulipas	92	138	254	414	6.5
Saltillo, Coahuila	99	161	243	367	4.1
Reynosa, Tamaulipas	74	137	240	422	5.8
Durango, Durango	97	151	239	37\$	4,7
Morella, Michoscan	101	161	238	352	4,0
Toluca, Mexico	77	114	234	482	1.5

· Cities ranked on 1980 population.

Based on 1970-30 annual growth rate.

Average annual growth rate (1970-80), excluding Federal District,

6.0 percent.

The population of the Mexico City metropolitan area is at least 50

 in population of the Meanon City metropolitan area if at least 30 persont larger than the Federal District; in the period 1970 to 1980, it grew much more rapidly.

This table is Unclassified.

formed from tawdry border towns into large and diversified entrepreneurial centers.

44. Long before the economic collapse in 1982, tensions between these border regions and Medico City were multiplying. The former sought a larger share of political power, less restricted exchange with the United States, and a silice of the federal budget compatible with their increased importance. The economic crisis, moreover, exacerbated these tensions as the border economics were especially damaged by the

devaluations of the peso, foreign exchange controls, and the sharp drop in imports from the United States.

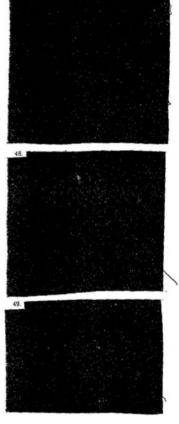
The National Action Party

45. The National Action Party (PAN—which means bread in Spanish) has been growing over the last 30 years as the leading alternative to the PRI, and its greatest gains have been in the northern border regions and in Yucatan. According to the government's count,



PAN captured 16 percent of the vote in the July 1982 presidential elections. That was more than all of the other opposition parties combined, and PAN's largest share ever. The PAN vote probably was larger, but we doubt it reached the 46 percent that the party's own official election postmortem claims. Since then, PAN has been victorious in an unprecedented series of local elections, and in some northern cities and regions it appears to be the de facto majority party. In Septemher 1982 it won mayoral contests in the state capitals of Sonora and, in alliance with another conservative party, in San Luis Potosi. In July 1983, it won mayoralties in Durango, the capital of the state of the same name and, more important, in Chihuahua state where it took the three largest cities, including the state capital and Ciudad Juarez, which is the country's fifth-largest city

46. A number of factors seem to explain the growth of PAN's support. The party traditionally has appealed primarily to wealthy, middle-class, business, and church-oriented constituencies. With modernization and urbanization, those sectors have become larger as a nercentage of the total Mexican population over the last two decades, thus accounting in part for PAN's greater popularity. In addition to this growth by accretion of its natural constituency, the party has probably also succeeded in extending its appeal to some groups not previously inclined toward it. Presumably a large share of the ballots PAN candidates have won in recent elections have been protest votes rather than enduring expressions of support for the opposition. PAN probably has benefited from the widespread dissatisfaction resulting from the corruption and the disastrous economic policies of the last government. But, even with the added support of the many middle-class and other Mexicans now opposed to continued PRI hegemony, the PAN is handicapped by many serious problems: the paucity of leaders with national experience: the weakness of its infrastructure: its failure to come up with national political platforms; and a general perception that it is the party of wealthy elites.



C. The Slums

50. Although urbanization has been widely dispersed, the most explosive growth has been in the colonias populares, the teeming slums and squatter settlements around the principal cities. One of these, Netzahualcoyotl, on the outskirts of the capital, has been burgeoning at an annual rate of more than 50 percent during the last 15 years or so. In 1970 it appeared for the first time in Mexican census data-as the fourth-largest "city" in the country. By 1980, with an estimated population of close to 3 million, it was no longer listed separately, perhaps because the government does not want to call attention to it. Many other huge new slum settlements like it have mushroomed on the outskirts of most of the other cities too. expanding in fact more rapidly in relative terms in the provinces than in the metropolitan capital area. The extraordinary rapidity of slum expansion has resulted in new arrivals coming to be known as paracoldistasparachutists, who seemingly drop in silently and in such numbers as to transform completely the places where they alight. Even before the economic crisis, unemployment and underemployment rates in the slums were the highest in the country.

51. Despite such conditions, however, there have been no large riots like those that have occurred in some cities in the United States and other countries over the last 20 years. Rioting and bus burnings occurred in Netzabualcoyoti in 1981 following bus fare increases and levels of crime have increased notably as economic conditions have deteriorated. In contrast, during the decades when the economy was growing rapidly and creating many new jobs and opportunities, the realistic expectation of better times—stagdy work, material gains, the chance to move up on the economic ladder—attracted the migrants to the cities, sustained their hopes, and kept them quiescent.



PAGES 22-25 DENIED

During the period of this Estimate de la Madrid and other key leaders will have to make tough decisions involving:

Central Economic Dilemmas

- The merits of alternative economic development strategies, including the role of the central government in guiding the economy, and improving the confidence and productivity of the private sector.
- How to relax nationalistic foreign trade and investment codes to help finance renewed economic growth while reducing trade barriers to enhance productivity and promote exports.
- How to service the foreign debt while increasing imports necessary for growth.

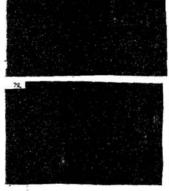
Political and Social Problems

- How to reform and revitalize the system and extend its reach into such relatively neglected areas as the slums and youth.
- Decisions on opening the system to opposition political parties without giving too much too quickly.
- How to stanch the growth of Mexico City and some other large cities.

73. Political power flows downward through hierarchically organized interest group structure—labor unions, peasant confederations, chambers of commerce—and only the president has the final authority and legitimacy to arbitrate disputer and apportion government favors among them. He can demand that groups comply with policies they oppose and has the power to corect them into doing so if all else fails.



75. During the year or so he has been in office, de la Madrid's performance has been generally impressive and his record remains unblemished by any major failures or crises. He and his advisers have managed the economy ably, and he has pragmatically and decisively defused several potentially serious challenges to the regime. Confronted on two separate occasions by striking leftist government workers, de la Madrid stood firm, and without having to resort to public demonstrations of force, compelled the unions to back down. He also skillfully handled a protracted confrontation in Oaxaca state between PRI and government authorities on the one side and members of a radical new left group on the other. Thus, although prior to 1982 he had little experience outside of finance and public administration, de la Madrid obviously developed keen bureaucratic-political skills during the many years he spent rising through the federal hierarchy. Another view, however, is that de la Madrid has done little to consolidate his power, that he has lost opportunities to provide decisive leadership on key problems, and that he tends to vacillate under the conflicting counsel of different advisers.



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Abstract:	
Pages:	0003
Pub Date:	11/23/1984
Release Date:	3/12/1998
Keywords:	GUATEMALA (MEXICO) CONTADORA OSCAR MEJÍA VÍCTORES LATIN AMERICA) WESTERN HEMISPHERE
Case Number:	
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Release Decision:	RIPPUB
Classification:	u

Guatemala: Reluctant Central American Partner

Recent political successes have bolstered the image of Guatemala's de facto military regime and at least temporarily given Chief of State Mejia added latitude in dealing with domestic and foreign policy issues. Even so, both Mejia and Foreign Minister Andradethe chief foreign policy decisionmakers—continue to pursue regional policies that are closer to those of Mexico than to those of Honduras, El Salvador, and the United States. In our opinion, their policies reflect the nation's long held views of its strategic role in the region and are consistent with the present regime's goals of securing the resources necessary to fight domestic insurgents and improving the country's international reputation. Although the recent renewal of some US military aid and increased economic assistance may help influence Guatemala's regional policies, we believe that the country largely will continue to adopt positions that may be at variance with US interests.

Impact of Political Successes

The honesty and efficiency of the Constituent Assembly election held on 1 July, followed by the formal inception of that 88-member body a month later, we believe, have enhanced Guatemala's standing abroad and may be acting as a catalyst that—over the long term—will help end that country's regional and international isolation. Widespread praise for the military's neutrality in the voting, and public pledges that it will remain so in national elections tentatively scheduled for next year, also has helped to promote a degree of trust between the armed forces and the country's various political parties.

In September, Mejia's efforts to improve his government's international standing paid off with the selection of a Guatemalan as a vice president of the 39th UN General Assembly session and the reestablishment of diplomatic relations with Spain, which were broken in 1980 after Guatemalan security forces raided the Spanish Embassy to evict protestors who had seized the building. Progress toward democracy also is helping to improve relations with Costa Rica, which recently invited Mejia to make a state visit to San Jose early next month. Even church-state relations have warmed as a result of the improving political climate.

the Papal Nuncio recently praised the democratization process and stressed the Vatican's satisfaction with recent events in Guatemala.

The Guatemalan Policy Perspective

Despite the added flexibility that we believe these events have given the government, Guatemala's leaders remain reluctant to cooperate fully with Hondur's. El Salvador, and the United States in regional affairs—particularly regarding Contadora and policy toward Nicaragua. Their aloofness reflects the long held Guatemalan sense of strategic importance and national pride that has been reinforced over the last few years by the government's counterinsurgency successes and a feeling of international isolation. Their attitude also reflects security considerations and resentment toward the United States.

Sense of Strategic Importance. Guatemalans believe that their country's size, population, and relative economic and military strength entitle it to a , preeminent leadership role in Central America with control over regional initiatives. A variety of reporting



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indicates that they view the issue of 'Core Four' unity at Contadora, for example, as US inspired and probably see little immediate or direct advantage in unconditionally endorsing hardline positions toward Nicaragua that, from their perspective, are mainly of benefit to Honduras, El Salvador, and the United States. They want to deal directly with Washington on regional issues important to the United States, and not with their southern neighbors, who they believe have little to offer in return for Guatemalan support.

We believe the national sense of pride and strategic importance has been strengthened by the country's counterinsurgency successes and by entreaties from other countries for Guatemala's backing in their disputes wir Nicaragua. Indeed, statements by both Mejia and Andrade over the past several months indicate that such courting of Guatemala has led them to believe that they have leverage with the United States and others in the region, including Nicaragua. Nicaraguan Foreign Minister D'Escoto. for example, recently reinforced this view by supporting Guatemala's bid to be the regional spokesman at the EC-Central America conference in San Jose in September because "Guatemala had kept itself removed from the Central America crisis." Thus, a neutral posture at Contadora and related issues probably has the dual effect of boosting Guatemala's self-image and improving its standing with an international community keenly focused on the dynamics of the peace process.

Security Considerations. Foremost among
Guatemala's foreign and domestic policy concerns are
security-related issues, especially control over its own
insurgency. Guatemalan leaders do not see Nicaragua
as a direct military threat. We believe they fear that a
Contadora settlement imposing stiff restrictions on
the Sandinista military—as proposed by the other
"Core Four" countries—could infringe on
Guatemala's sovereignty by placing similar
constraints on its own armed forces and paramilitary
Civil Defense Force, which now number more than
700,000 members.

Although Mejia is aware that the Sandinistas are providing material and training assistance to the

Guatemalan insurgents and has publicly accused them of doing so, he and other Guatemalan leaders apparently do not view Managua's support as critical to the guerrillas. Moreover, the Guatemalans—especially military officers—consider the spread of Communism in the region, represented by the Sandinistas, as largely a US problem—part of the East-West struggle whereby the Soviet Union and Cuba seek to weaken the United States. Thus, they believe that policies aimed at undermining the Nicaraguans benefit mainly the United States and that the Sandinista threat is a problem that should be addressed primarily by Washington.

In our view, the key security question for the Guatemalans remains the extraction of concessions from Mexico on border issues. Various sources indicate that Mejia believes that the Guatemalan insurgents' use of Mexican territory is a more important factor in their survival than Sandinista support. Thus, both he and Andrade probably see moderation at Contadora as part of their strategy to obtain Mexican cooperation.

Guatemala has been especially interested in the removal of Guatemalan refugee camps in Mexicowhich Mejia and other military officers have long charged are a source of insurgent propaganda and support-away from the border area. Guatemalan and Mexican officials began negotiating a settlement of the refugee problem earlier this year, and, as a result, UN officials in Mexico estimate that nearly 14,000 refugees have been moved by Mexican authorities since relocation efforts began last May. While we have no firm evidence that a guid pro quo deal has been struck with the Mexicans, past statements by both Mejia and Andrade have tied a Guatemalan posture at Contadora consistent with Mexico's to the latter's willingness either to assist in a voluntary repatriation program, or at a minimum, to move the camps from the border area.

We believe that Guatemala's "fence sitting" at Contadora also reflects its dependence on Mexico as a major petroleum supplier.

Guatemalan officials visited Mexico in July and successfully negotiated a 90-day/credit for oil covering three or four shipments worth roughly \$25 million.

Resentment Toward the United States. Guatemala's military successes against leftist guerrillas have taken place without US assistance. The resulting "go it alone" attitude and resentment toward the United States color the Guatemalans' policy perspective and continue to place limits on their willingness to cooperate with Washington without anything other than moral support. The Guatemalans do not view themselves as any worse than the Hondurans or the Salvadorans regarding human rights. Thus, they believe that US human rights policy has discriminated unjustly against Guatemala and created an imbalance between the treatment received by their country and that received by its neighbors-Honduras, El Salvador, and Costa Rica-in terms of US military and economic aid.

In our view, the resumption of some \$300,000 in US military education and training assistance in October and the authorization for up to \$40 million in development assistance funds for the next fiscal year will help reduce somewhat Guatemala's resentment toward the United States. Reporting from various sources indicates that the Guatemalans-who probably place as much symbolic importance on the restoration of aid as they do on its tangible benefitsare highly pleased by the aid renewal and see it as an important step toward improving their country's international image. Nevertheless, the limited size of the aid package is unlikely to stem substantially the frustration with what Guatemala perceives as Washington's myopia, particularly in light of much larger sums of assistance provided to Honduras, El Salvador, and Costa Rica.

Outlook.

We believe that Guatemala's policy in Central America does not depend on the personal orientations of the current policymakers but rather is based on broader, and therefore more permanent, national values. Consequently, we do not expect the extent of future Guatemalan cooperation with the United States on Contadora and other regional issues to change dramatically any time soon. In our judgment, only the provision of substantial US military aid in the form of credits or outright grants—or the prospect of an impending insurgent victory in El Salvador—are likely to move Guatemala toward more active support of US interests.

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2 October 1985

Among the alternatives, Mexico City probably offers the best chance of providing oil to Guatemala to carry the country through the January transition in administrations. The US could offer to support additional INF or Morld Bank funds for Mexico City sufficient to cover the roughly \$50 million cost of oil imports. In effect, we would ask Mexico to forego the 80% down payment required by the San Jose Accord while offering to replace that money with loans. As with Micaragua, Mexico City would bear the risk of eventual non-payment by Guatemala. By offering loan support, however, we would defuse Mexico's argument that financial constraints preclude making oil available at this point.

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Title:	IMPLICATIONS OF MEXICAN FINANCIAL PROBLEMS	
Abstract:		
Pagesi	0012	
Pub Date:	2/24/1986	
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IMPLICATIONS OF MEXICAN FINANCIAL PROBLEMS

Information available as of 24 February 1986 was used in the preparation of this Estimate, approved by the National Foreign Intelligence Board on 20 February 1986.



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DISCUSSION

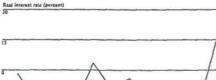


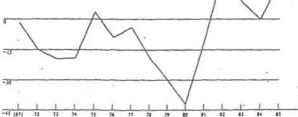


2. Against this backdroot, the recent sharp fall in oil prices is acting as a catalyst both to increase the financial burden of Mexico's foreign debt servicing charges, which will be roughly \$13.5 billion in 1986, including \$9.5 billion in interest. At Mexico's current average oil export price of about \$15 per barrel, oil revenues will be roughly \$35 billion less than initially estimated for 1986. Each additional \$1 per barrel decline in the price would result in an additional net \$375 million loss 'in annual receipts at an export level

"This net figure includes a \$500 million oil revenue loss and a \$125 million savings in interest payments.

Figure 1 Mexico: Real Interest Rate on External Debt*





* Real interest rate is defined as the naminal interest tate paid on external debt minus the change in the US deliar expect price index for Mexico.

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International Oil Price Outlook

The international oil market is in disarray following several months of high production and OPEC's December decision to defend market share instead of price. Spot oil prices for several key crudes have dropped to below \$18 per barrel, down \$3 per barrel and 30 percent since the beginning of January. Mexican crude prices have followed these prices downward-the state oil company has retroactively reduced prices several times since December, Mexican crude, which sold at a \$1.25-per-barrel discount from average world prices during 1985, has lost ground. Competitive pressures and buyer dissatisfaction with the retroactive pricing scheme have forced the Mexicans to lower their average price to \$15 per barrel, about \$6 per barrel below the world average. According to press reports, early February export levels may have fallen to as low as 700,000 barrels per day compared with a target level of LS million barrels per day.

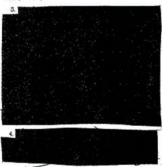
Despite the already steep slide in oil prices, there is still the potential for substantial price volatility and further price cuts in the months abead. How fast and how far prices fall will depend, in large part, on the resolve that OPEC producers, particularly Saudi Arabia, show in maintaining their increased market shars. Non-OPEC producers to far have not responded to the organization's call for increased ecooperation and are unlikely to voluntarily cut output significantly. Prob-

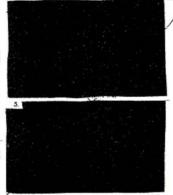
lems in selling oil into a glutted market or in pricing oil competitively, however, could lead to production slaw-downs in all producing countries.

We envision two possible price scenarios for 1986:

- Price Erarion. Under this most likely scenario, world oil prices average \$20 per barrel for the year, with Mexican crude continuing to sell at a deep discount of at least \$5 per barrel below this average. OPEC producers limit their market share target to about 18 million barrels per day (b/d)—about 1 million b/d more than the market negation and winter oil requirements cause prices to firm the second half of 1956. Mexico's financial problems give oil buyers additional leverage, and Mexico is forced to continuo offering discounted oil to bring exports up to the target level of 1.5 million barrels per day.
- Price Collapse. Under a less likely, but still plausible scenario, world oil prices continue to spiral downward and average \$15 per barrel for the year. Mexican crude prices tumble to \$10 to 12 per barrel or below. In this case, Saud Arabia and other OPEC countries aggressively stake out an increased market share and attempt to produke 19 million barrels per day for the year.

of 1.35 million barrels per day. Petroleum exports in 1985 accounted for about 70 percent of Mexico's export earnings and 45 percent of government revenue.



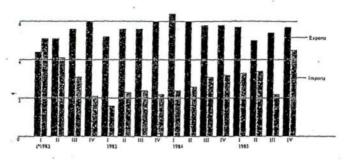


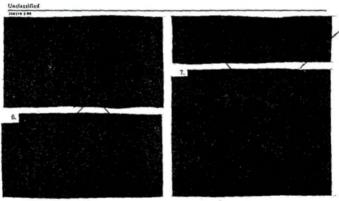


NOFORMINOCONTRACT

Figure 2 Mexican Trade

Billion US S



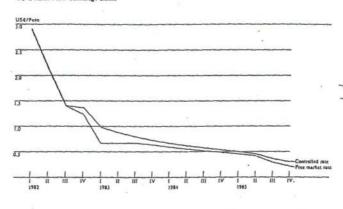




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NOFCON/NOCONTRACT

Figure 3 US Dollar/Peso Exchange Rates



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Position of the Banks

11. Mexico's 4 February announcement that this year's financing needs would be \$9 billion as a result of falling oil prices surprised creditors, who believed the figure overstated true revenue losses, given oil prices that prevailed at that time. Previously, the Mexicans had requested \$4-5 billion in net new financing for 1986 of which roughly \$2.5 billion would come from contimerial banks!

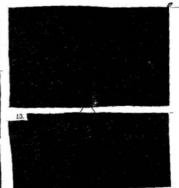






Table 2

Billion US 3

US/Mexicon Ties

US Commercial Bank Exposure to Mexico ·

_	_	_		_	
Debt	held	by	US	bankı	

Total	25.2
9 money center banks	14.3
15 other large banks	4.8
All other	6.2
Amount awed by borrowers	
Mexican banks	4.2
Mexican public borrowers	13.3
Mexican private nonbank	7.7
Maturity of distribution	
One year and under	8.2
Over one to five years	10.1
Over five years	6.9

^{*} Data as of September 1985. This table is Unclassified.

- Mexico is the United States' principal foreign supplier of petroleum and third-largest trading partner.

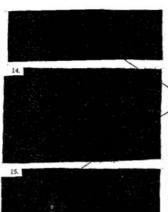
- US banks hold over 35 percent of Mexico's commercial debt, and investment in the country by US firms accounts for over 80 percent of total foreign investment.

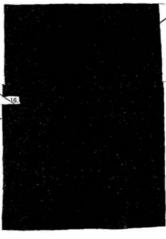
- The economies of dozens of cities on both sides of the border are increasingly interdependent and the well-being of their people intertwined.

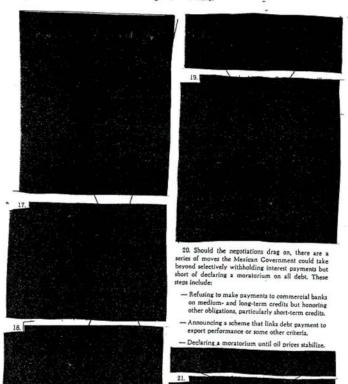
- The border assembly program, dominated by US firms, is Mexico's fast-growing economic sector and already is the second-largest foreign exchange

- Thousands of US citizens visit Mexico annually, helping make tourism the third-largest foreign exchange earner.

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ANNEX

FINANCIAL PROBLEMS OF

OTHER DEBTORS

Although most recent attention has focused on LDC oil exporters, most LDCs that rely heavily on commodity export earnings are in serious financial condition.

- The price of tin, for example, has fallen by some 40 percent since late 1984, with nearly all of the decline coming since the collapse of the tin market late last year.
- Zinc, lead, and phosphate prices have declined sharply over the last year.
- Prices of important LDC agricultural exports, including rice, palm oil, and occount oil also have dropped over the last 12 months.

Indeed, of some 22 key LDC primary commodity exports, only five have not experienced falling prices over the past year.

Collectively, these adverse price trends severely damaged the export performance and debt servicing prospects of debtors in Africa and Asia. Egypt, for example, has been hit not only by falling oil prices, but also by lower prices for cotton, second only to oil as an Egyptian export. Morocco also experienced falling export earnings due largely to the drop in the price of phosphate, which accounts for one-fourth of its export. While lower oil prices will benefit oil importers like Morocco, the effect of the declines in prices of their export products have, in many cases, been greater.

The picture is similar in Asia, with the adverse effects of falling of prices being accentuated by price trends for other primary commodities that account for the bulk of their nonoil imports. For Malaysia the collapse of the tin market not only means lower prices for list tin exports, but also perhaps having to put up funds to cover the International Tin Council's share of the cost of the collapse.

Table 3
Price Changes in Key LDC Commodity
Exports

Percent

	Change Since December 1984	Change Since 1980
Coconut oil	-59	-49
Palm oil	-41	-41
Tin	-40	-58
Hides	-36	102
Oil	-29	-35
Zine	-17	-15
Phosphates	-33	25
Groundnut oil	-22	-17
Lead	-14	-60
Cotton	-14	-36
Silver	-1t	-72
Corn	-11	-22
Soybeans	-11	-26
Beef	-9	-11
Rice	~8	-54
Wheat	~1	-17
Lumber	-1	-4
Rubber	1	-43
Соста	1	-15
Copper	1	-36
Sugar	15	-55
Collee	32	-10

This table is Unclassified



Table 4 Selected Debtors: Debt Servicing Capabilities

	Change in Merchandise Exports for 1985 • (percent)	Primary Commodities as Share of Total • Merchandise Esports (percent) Oil • Nonoil •		flatio of Reserves * to Imports (months)	Interest Payments as Share of Merchandise Exports in 1985	Change in Value of Merchandise Imports 1531 to 1965 (percent)
					(percent)	
Argentina		4	76	- 1	63	-55
Brazil	-5	7	45	10	38	-21
Chile	-0	NECL	65	4	29	-55
Colombia	15	MEGI.	56	6	35	-27
Egypt	3	76	16	1	23	25
Indonesia	~9	77	17	4	14	-20
Ivary Coast	10	4	93	1	14	-42
Jamaics	-20	1	49	1	29	-20
Malaysia	-5	27	42	4	15	12
Mexico	-12	70	9	3	45	-67
Morocco	-10	2	59	MEGL	25	-15
Nigeria	3	96	3	1	12	-50
Pakistan	~7	1	18	t	18	7
Peru	-3	21	69		20	-46
Philippines	15	3	45	2	49	-33
Theiland	-5	MECL	59	3	26	-1
Venezuela	-11	86	6	17	22	-25
Laire	-9	20	55	1	16	17

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Based on exports to OECD.
 Fuels.
 Foodstuffs plus raw materials.

^{*} Total reserves minus gold.

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LATIN AMERICA:

Contadora Marking Time

Several players in the Contadors pascs process are again working at cross purposes, and no major initiatives are likely soon.



Among the mediators—Mexico, Colombia, Venezuela, and Panama—Colombian President-elect Barco reportedly is considering withdrawing from Contadora after he takes office next month.



Comment: The Central American democracles are likely to resist pressure for bilateria lates as an effort to divide them. They also believe that control of the peace process now lies in Central America and want to hold on

It is unclear whether Berco will withdraw Colombia from the process, but, even it he does, other Contadors countries, especially Mexico, might see such a development as an opportunity to revemp the negotiations.





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3. GUATEMALA: INSURGENTS SEEK LEGITIMACY THROUGH DIALOGUE

The insurgents continue to aim for an eventual revolutionary government in Guatemala, but having lost "legitimacy" with the return to democratic rule in Guatemala they are now interested in a dialogue with the Cerezo government. President Cerezo would doubtless like to be remembered as the president who ended the 23-year-old civil war. He is not naive about guerrilla intentions, however-and remains in any case under serious constraints. The armed forces want to continue combating the insurgency through a combination of rural development—which the civilians have not been adept at managing—and military operations.

The war. The insurgency (comprised of four guerrilla groups, numbering 1,500-1,800 in all) continued at a low level last year. Combat casualties on both sides were 159, own from 297 in 1983 and 467 in 1984. The army has reestablished control over considerable territory just south of Lake Attitan, but the insurgents continue to control remote areas adjacent to Mexico. The guerrillas remain under pressure and have reverted to theft and assassinations. Insurgent activity has picked up this year, and plans are reportedly under way to establish an 'urban front' in Guatemala city.

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Government conditions. The government, prodded by the military, continues to maintain that there can be no dialogue until the guerrillas lay down their weapons. Cerezo—interested in being seen as a peace-maker—nonetheless appears interested in meeting with the insurgent leadership. He is not under any illusions, however, that they are seriously interested in giving up the armed struggle and realizes that he must tread carefully in order not to incur the wrath of the military.

<u>Likely scenario</u>. Since the insurgents will almost certainly not lay down their arms, a serious dialogue between the Guatemalan government and the URNG is unlikely in the near future. And although the URNG may get propaganda mileage from its strategy, it is doubtful that it will be able to drive a wedge between Cerezo and the military on the dialogue issue. Cerezo probably concedes the military's point that the government needs to place greater attention on rural socio-economic development if the progress in the war against the insurgents is to be maintained.

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NORTH KOREA-SOUTH KOREAL

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Toward Dialogue

North Korea's conditional offer yesterday to return to the North-South dialogue is probably intended to demonstrate a new flexibility that will be difficult for the Chun government to lurn selde and is timed just before Secretary Shultz arrives in Seoul in hopes that the US will press South Kores to accept.

The North said it will return to talks on economic, Red Cross, and parliamentary issues if the South accepts the proposal it tendered two months ago to begin high-level political and military talks. Seoul has not responded formally but some South Korean officials have expressed surprise at the North's flexibility.

Then its January Initiative, the North dropped its longstanding call for US participation in any military talks. The new proposal is the first sign that P'yongyang is willing to accede to

Seoul's'demand to return to talks at the working level, which the North suspended a year ago to protest the annual US-South Korean Team Spirit military exercise. North Koree had refused to return to 63 that dialogue unless the exercise was canceled.

North Korea may hope these signs of flexibility will improve its image and move it closer to several key goals. P'yongyang wants international support for its bid to cohost the summer Olympics next year, and, by suggesting sincerity on reducing tension, the North probably hopes to undercut South Korean President Chun's 63 campaign to portray P'yongyang as a security threat.

P'yongyang caught the South off guard. Because Seoul Is preoccupied with domestic politics, it probably will have problems in formulating a response.

MEXICO:

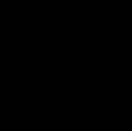
Pressing Commercial Banks

Mexican officials are searching for a way to put pressure on commercial banks in the US and Western Europe to participate in the 37.7 billion financial package arranged for Mexico, but the government probably will find isolating those banks difficult.

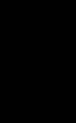
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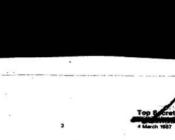




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INDIA-CHINA: Border Tensions

tensions to mount along

the disputed eastern border, and that indien troops are preparing for skirmishes after the snow melts this month and before the monsoon season begins in June.

plans for the Sino-Indian border.

(3) China's forces in Tibet are already in a heightened state of silert, and Beiling is likely to react to any exercise near the Chinese frontier with major reinforcements. New Delhi probably will respond aggressively to any perceived Chinese border violations this spring, and skirnlahes are likely it the democration resolutions remain deadlocked.

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ISRAEL-USBR: Increesed Contacts

Israel will allow a Soviet consular delegation to visit,

sometimes a Soviet consular delegation to visit,

sometimes and sometimes and soviet with environmental processing more
frequent meetings with their israel counterparts. The Soviets (set
month granted a tourist visit on a Soviet emigrant in larael who wanted
to return to the USSR to visit a dying parent—a case the

b (3) Troadening its dialogue with tisred without seriously alerming its Arab "alies, Israeli leaders, meanwhile, are hopeful that an improvement in East-West relations prompted by General Secretary Gorbachev's new arms control proposals will carry over to lareal-Soviet ties. Tell Aviv remains determined on the issue of Jewish emigration from the USSR and is watching closely for confirmation that the Soviets have begun processing 500 emigration applications allegedly approved two months ago and for other signs of a long-term easing of Soviet emigration requirements.

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ARAB STATES-LEBANON: Support for Syria's Move

The "good offices" committee of the Arab Lesgue gave tacit support to Syria's move into West Beirut during its meeting. In Tunis on Sunday and agreed to set up a subcommittee to took into the welfare of the Palestinians in the refugee camps in Lobanon. It did not endorse a call by PLD leader Arabt for an emergency session of the Arab League.

It the growing Arab consensus on Lebanon means that the Iran-Laques was in the major obstacle to holding a much-postponed Arab Leagues summit fater this year.

public and private Arab comments that the Syrian intervention was necessary to redress the deteriorating security situation in West Beirut. There is general concern among Arabs about Syria's ultimate aims against the Palestinians, but measured Syrian moves have so far helped to allay such anxieties. Most Arab leaders probably hope that Syria's military presence and c'ashes with Hizballah will strain relations between Damascus's support for Iran in its war with Iraq and for the holding of an Arab League summit, perhaps this fail.

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Germany.

EAST GERMANY-USSR: Gorbachev's INF Proposal

East Germany has reacted enthusiastically to General Secretary Gorbachev's zero-zero INF proposal aimost certainly because it would require the withdrawai of the shortegrange "countermeasure" missiles deployed in 1983 on its territory. Elat Berlin issued one of its infrequent, joint party-government statements in support of the proposal. East German leader Honecker Instructed the East German Permanent Representative in Bonn to call on Chancellor Kohl on Monday to urge him to use his influence with the US on behalf of the proposal.

b (3) Instruments." Their presence in East Germany has long been a sore point between him and the Sovieta. Honecker is probably doubly relieved at their prospective withdrewal because it would give him the opportunity to cheer Gorbachev at a time when Western media have been reporting increasingly on strains between the two countries over the Soviet leader's retiom program. If East Germany can appear to move Kohl in the direction of supporting the Soviet proposal, this will increase Honecker's changes of making his long-awaited visit to West.

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CHAD-LIBYA: N'Djamena Disclaims Truce

The Chadian Government has not agreed to the cease-fire that was declared by the leader of the Libyan-backed rebels,

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Although the two sides may be telking behind the scenes, any cease-fire at this point is one sided. Moreover, Chadlan forces expect renewed attacks by Libyan and Libyan-backed rebel troops. Habre probably is pleased with the performance of the recently combined government and guerrilla forces who continue to harass Libyan troops in the Tibesti Mountains.

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ROMANIA-HUNGARY: Dispute on Minority Issue

in a harsh speech lest week, Romanian Presidont Ceausescu warmed that, if Hungery continues its "faciet, chauvinist, and even racist" criticism of his policy to assimilate forcibly Romania's 2 million ethnic Hungarians, it would be "contrary to the interests" of both nations and suggested that the two countries ley their differences ealed and resume a dialogue on other issues. The speech followed a series of increasingly sharp remarks in the Hungarian press and by Hungarian leaders on Romania's minority policies.

are "cool." He implied that the reason fungarian party leader Kadar has refused to meet with Casusescu during the peat decade was Romania's failure to honor commitments on cultural contacts made at their last meeting.

Ceausescu blames Hungary for increased international attention to his abymail human rights record. He probably is also concerned about rising discontent within Romania's Hungarian minority at a time when he is imposing economic austerity at home. Ceausescu hopes to play on ethnic rivelries to contain their protests. The Hungarians are increasingly frustrated over Bucharest's fallure to act on the problem and are not likely to curtail their criticism. Budapest, however, is reluctant to force the issue to the point where Moscow might show some sign of becoming involved.

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MÁDAGASCAR: Crackdown on Violence

Madagascar's security forces clashed with university students in the capital last week, leaving at least six dead.

Troops were also hard pressed to quell three days of dotting in a nearby town, where residents burned and looted properly of ethnic indians, who dominate local business activities. The Army and police, which have tried to avoid confrontations with students over the past two months, have now announced that demonstrators will be

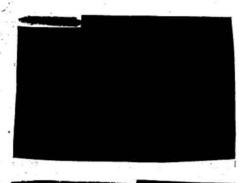
President Reteriskeprobably calculates that a crackdown is anexessary to contain the situation. He especially needs to prevent the southern Malagasy, long dissatisfied with their lack of influence in the government, and other dissaffected groups from joining the students, who were protesting curbacks in education. Ratelinks knows that the previous regime's fallure to move declevely against student striker in 1975—and to locate them from dissident laborers and peasants—contributed to the governmental collapse that brought him to power. Although the disturbances are in large part sconnically motivated, Ratelinks is not fikely to back down from his IMF-aponsored reforms, which are essential to a continuation of vital donor aid.

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protest attacks against West German rail lines transporting nuclear materials increased more than 80 percent last year, probably because of the nuclear socident at Chemoby! In April and the construction of a spentfuel-reprocessing plant at Wackersdorf. Most of the attacks have involved minor vandalism, but at least one was an attempted bombing of a trale carrying nuclear weste to a storage after near Contents.

WEST GERMANY: Antinuclear Protests Focus on Transport

These incidents will probably get worse unless new Weet German laws regarding protest attacks and terroriam have more impact than expected. Groups at an antinuclear conference two months about the country later that year primarily because roll lines were easier targets than nuclear plants. These stacks have unskey to pose a serious radiological threat, because the radioactive materials being shipped are in large containers that are extremely difficult to breach.



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in Brief

Cost Asia

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Soviet-Chinese trade protocol for this year has been signed in Moscow . . . part of five-year, \$14 billion barter agreement . . . possibly timed to counterbalance visit to Beljing by Secretary Shuitz.

Americae

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USSR to pay more than double world price for Niceraguan agricultural commodities this year.

Paraguayan political exile Domingo Laino will seek to enter country this week beaten, denied entry in June ... regime may permit entry to improve human rights record, relations with US.

Middle East

Egyptian negotiators en route to USSR for new debt talks . . . probably seeking favorable treatment as precedent for other creditors, including US . . . demands for forgiveness of all interest, more favorable exchange rate major sticking points.

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Special Analysis

WESTERN EUROPE-USSR:

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Reactions to Gorbachev's Reforms

West European leaders are guardedly optimistic about General Secretary Gorbachev's efforts to bring change to the USSR, but they remain skeptical about the depth of his reforms. Some are concerned that Gorbachev's linege building at a time of increased US-West European strains might undercut NATO interests. Most nonetheless probably feel that public opinion obliges them to be receptive to Gorbachev's initiatives, and they may move toward expanding foint ventures and scientific cooperation with the USSR MEMBERS. b 2.

West European leaders' public responses to Gorbachev's democratization campaign and to such initiatives as the release of dissidents have ranged from enthusiastic approval to grudging admission that the Soviet leader is backing up his 'charm offensive' with more than rehetoric. West Europeans at all levels and across most of the political spectrum give him higher marks for initiating reforms that by Soviet standards are both radical and entightened.

More Vigilant Than Positive

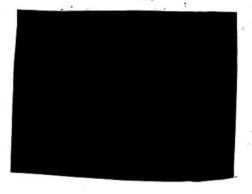
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Most other West European leaders are reserving judgment even thdugh they feel obliged to applaud Gorbachev's moves. EC Foreign Ministers have welcomed the Soviet liberalization as an apparently new approach to East-West relations.

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Other European officials, such esc appear concerned that Moscow may be scoring dangerous political gains because a dynamic, seemingly progressive Soviet leader has emerged at a time when US policy is perceived as being in diserrey. The prospect of more US-West European friction over trade and monetary policies while public opinion retings for Gorbachev remain high probably will become increasingly worrisome to Aliked leaders.

Striking a Balance

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Most West European leaders remain skeptical of Gorbachev's chances of fundamentally changing the Soviet system, but they are inclined to give him the benefit of the doubt. Most will continue to feel compelled to avoid charges of missing opportunities to advance East-West relations. An improved human rights climate in the USSR, for example, may provide justification for improved track.

In trying to strike a belance that would rein in enthusiasts such as Genacher willle avoiding charges of negativism, West European leaders may also agree to greater scientific, nuclear, and space cooperation. They may accelerate joint economic ventures—with impicit tharring of technology and technical expertise, in addition, the leaders may accept the West German proposal for an East-West economic conference or Gorbacher's proposal for an exchange of Soviet and EC Ambassadors. West European leaders will grow increasingly uneasy if they perceive that Washington's prococupation with the Iran controversy prevents it from regelning the diplomatic lotilative.

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Special Analysis

ITALY:

Implications of Craxi's Resignation

Italian Prime Minister Crex's resignation yesterday had the appearance of being in formal compilance with an earlier agreement by the live-party governing coalition to-teaaster the Prime-Ministry to a Christian Democrat this month, but his true aim is to exuttle the pact.

and is prepared to employ obstructionist factics if he can avoid adverse political fatiout. His most likely successor, Foreign Minister Andreatti, a Christian Democrat, will thus face an uphili struggle to form a new government; the outcome might be an sairly election.

Craxi's preference for an early election, which the Christian Democrats will aimost certainly force this spring it they cannot put together a government, stems from his condiction that his party would fare well, and give him a strong claim to head a coastition government again in the next parliament.

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Andreotti's Challenge

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Working in Andreotti's favor will be the risks that Craxi could sacrifice his party's expected electoral gains if he were to appear to adopt an inflexible stance. Recent opinion polls showing that about two-thirds of Italians oppose an early election are likely to reinforce Craxi's

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concerns. Andrecti; will be aided by the worries of the smeller coalition partners that an early election would be dangerous for them because they are still in the midst of efforts to restore their images, which have been tarnished by scandals, internal divisions, and—in the case of Defense Minister Spadolini's Republicans—to oclose an association with US counterterrorism policy in the wilkerof-publicity over Washington's arms sales to Iran.

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Possible Scenarios

It is likely that Androotti will fail in his bid. The mensurering by Craxi and De Mitta will probably relectensions in the coalition to the point that the pertners will see the air-clearing jolt of an early election as preferable to 15 more months of divided, ineffective leadership by the coalition. If President Coseiga is unable to secure support for a single candidate, as seems likely, an election will probably be held in early. May. Coalition leaders, however, may decide to wait until after the Western soonomic summit talks at Ventice in early June.

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There is, however, a fair chance that Androotti, who is shrewd and willy, might be able to form a government despite the maneuverings of Craxi and De Mitta against him. He could grant sufficient concessions to Craxi to make Craxi's continued opposition to the transition appear irresponsible. Andreotti will try to deter De Mitta from acting too boldly by having Andreotti's supporters warn De Mits against stabbling Andreotti in the back. He may also play successfully on the fears of the smaller coalition partners about an early election to build a united front in favor of the iransition, thereby isolating and sobering Craxi and specific De Mitta's opportunity for maneuver.





Special Analysis

PLO-LIBYA:

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Warming Relations

to PLO Chairmen Araist have been meeting with Libyan leader Oadhalf recently to discuss the situation in Lebanon and the reunification of the PLO despite Qadhalf's continued support for Syrian-based anti-Araist groups.

The PLO's relations with Libys have been strained since Tripoli withdrew its recognition of the organization in 1983 to support radical Palestinian groups that fatter formed the Damascus-headquartered Palestine National Salvation Front. Libys nonetheless has actively supported most Palestinian groups—including Arafa's Fatsh—against the Syrian-backed Arnal militia during the renewed fighting in Lebanon since late last year.



Contacts between Libye and the PLO will remain limited as long as mutual suspicions persist. Arafat probably hopes increased contacts, however, will encourage Gadhaff to use his leverage over radical Palestinians to promote PLO unity. For his pert, Qadhaff will continue to work for a Palestine National Council meeting in Tripoli in an effort unite the Palestinians under his guidance.



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SUBJECT: LATIN AMERICA BRISE

FOR 14 MARCH 1987.

1. LATIN AMERICA: CONTADORA REACTIONS TO ARIAS PEACE PLAN

THE CONTADORA FOREIGN MINISTERS, AT THIS MEETING IN URUGUAY THIS WEEK, ENDORSED THE RECENT PEACE PROPOSAL BY COSTA RICAN PRESIDENT ARIAS AND THE SUMMIT OF CENTRAL AMERICAN PRESIDENTS

SCHEDULED -FOR MAY IN GUATEMALA .-

ARIAS TOLD THE PRESS IN MEXICO CITY LAST WEEK THAT HIS PLAN COMPLEMENTS THE CONTADORA PROCESS .-

THE CONTADORA MEDIATORS. THAT THE COSTA RICAN PRESIDENT'S FOCUS ON THE NEED FOR DEMOCRACY WILL SABOTAGE THEIR ATTEMPTS TO SECURE A REGIONAL PEACE TREATY. THE MEDIATORS PROBABLY ENDORSE THE GUATEMALA SUMMIT SECAUSE IT WILL INCLUDE NICARAGUA, BUT THEY ARE LIKELY TO CONTINUE TO RESIST PROPOSALS TO PRESS MANAGUA ON THE ISSUE OF INTERNAL REFORMS. BECAUSE THE ARIAS PLAN OFFERS SIGNIFICANT CONCESSIONS TO MANAGUA -- IT DOES NOT CALL ON THE SANDINISTAS TO NEGOTIATE WITH THE INSURGENTS, FOR EXAMPLE -- THE MEDIATORS MAY SEEK TO INCORPORATE ASPECTS OF THE PROPOSAL INTO THE CONTADORA PROCESS.

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PERSIAN GULF:

Situation Report

tranian Ship Attacks Incresse

kranian naval forces have attacked at least four ships since yesterday in retallation for Iraqi airstrikes on Iranian tankers and economic

facilities.

Tehran will continue to retellate in kind for Iraqi ship attacks, and may also target Gulf shipping in response to iraqi alratrikas on economic and oil facilities in Iran.

war, tranian difficulty in finding suitable Kuwaiti targets and lingering anger over the death of tranian pligrims at Mecca in July may have prompted Tehran to expand its attacks to include ships trading with Saudi Arabin.

Iraqi Attacka Continue

Iraq increased the pace of its sirstrikes on economic targets yesterday, combing oil and industrial facilities throughout southwestern iran and attacking at least three ships overnight,

Meanwhile, Baghdad is concerned that Washington's strong objection to Iraq's resumption of attacks in the Gulf reflects a reduction of US support.

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cease-fire, and negative reactions to enter into any partial cease-fire, and negative reactions to Iraci stratifices will strengtion Bachdad's suspicion that the US is more firstenated in removing the threat to ahlpping in the Gulf than in ending the wer. The Iracis probably believe that helpidnisned terisions in the Gulf will give Foreign Minister Tariq Aziz and Arab Lesque delegations greater leverage in talks this month with UN Security Council members—particularly the Soviets—who are refuctant to impose sanctions on Iran.

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SYRIA-LEBANON:

Syrian Tensions With Hizballeh

Syrian forces are maintaining pressure on Hizbalish in Lebanon despite the return of US journalist Charles Glass, and Damascus appears to be trying to reassert the leadership of Amel chief Mabi Barri within the Lebanese Shia community.

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Tensions are increasing between the Amai and Hizballah milities in the Bekaa Valley because of Amai's cooperation with the Syrians against Hizballah there.

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D3 Seminary Demescus appears determined to capitalize on restrictions it imposed on Hizbalish and iran following the abduction of Glass in June to promote its position in Labarons. Syris probably teels it is worth trying to retriviporate is in serving the serving serving the Lebanese Shis community as a low-cost sitemative to taking on Hizbalish Itself. Demascus will take care to avoid a major flareup with Hizbalish that yould perjourly damage Syris's strategic relationship.

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Argentina: Races To Watch

Buence Aires Province

The governorship of this province—the nation's power center and home to a third of the Argentine population—is clearly the most critical race. Radical gubernatorial candidate Juan Manuel Casella and Peronist rival Antonio Caffero, who are running neck and neck, both have presidential ambitions for 1989. A victory will serve as an important steppingstone for those aspirations.

Cordoba

The Radicals ere lik sty to maintain their hold on this industrial and agricultural center, but the Peronists, polling better than ever, hope to prove that they can expand their influence beyond their traditional strongholds. The Radical gubernatorial candidate, Eduardo Angelox, is also likely to be a presidential contender, especially if Casella loses in Bunnos Aires.

Santa Fe

The Radicals have gained ground in this densely populated, traditionally Peronist-controlled province, but their gubernatorial candidats, Luis Caceres, is an outspoken critic of Alfonsin and has not received strong endorsement from national party leaders.

Congress

Even if the Peronists reduce the Radicals' current majority in the lower house to a plurality, the ruling party should be able to retain working control with the aid of small, center-right provincial parties, An outright Peronist majority in Congress—a highly unlikely outcoms—would seriously impode Alfonsin's ability to govern during his remaining two years in office.

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ARGENTINA:

Elections Key to Alfonsin's Program

Congressional and gubernatorial elections on Sunday will help determine the contenders for the 1989 presidential race and influence President Alfonsin's political strength for the remainder of his term.

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These are the second off year elections since Argentina returned to civilian rule in 1983 and represent substantial progress in consolidating democracy. Haif of the 254 seats in the lower house of Congress will be contested, along with all 21 provincial governorships, 737 provincial legislature seats, and nearly 10,000 municipal offices.

the opposition Perconists, but its margin of victory may not be as wide as in the past because of the recent rise to dominance of a younger, more appealing reformist Perconist faction. The Radicels may also lose ground to eayeral provincial conservative parties that have performed well on a local level, especially on economic issues—

A victory by the Radicals would reinforce Alfonein's political authority, eroded somewhat by the April military crists and continued economic difficulties, and enable him to push for constitutional reform. He favors introducing elements of a parliamentary system and possibly a measure silcowing him to run for a second term. A Radical win would also allow him to implement some of the free-market economic changes that have lain largely domaint since he introduced the Austral program two years ago.

A closer result would help revitalize the Peronist Party, which has been working hard to overcome longstanding problems such as crippling factionalism and an authoritarian image. Even if the Radicals retain working control of Congress, a strong Peronist showing might encourage the party to begin to function as a more responsible participant in the country's fragile two-party system.

Both the Radicats and the Peronists consider this race a referendum on Alfonsin's performance, as well as a dry run for the 1989 presidential election. The candidates who do well, perticularly in the race for governor of Buence Area Province, will be best positioned to represent their party in 1984.

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PANAMA:

Regime Moves To Shore Up Support

Efforts by the Panamenian regime to buttress its support are unlikely to reduce political tensions.

The replime has unveiled proposals for social tegislation—including enactment of a civil service law—to pacify public employees whose support appears to be warning, according to the US Embassy. Government workers are striking today to press the regime to grant the right to unionize, reintle employees dismissed for alleged participation in opposition activities, and fulfill promises of salary and benefit increases at the contract of the contra

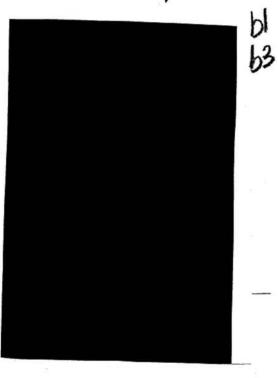
Meanwhile, and the Civil Crusade may modify its plans for further marches and railies in lower-income neighborhoods. Attacks on an opposition march on Sunday by proregime leftists left one protester dead and several injured

Public workers—traditionally in the government camp— \$\overline{\pi} 2\$ are trying to exploit the situation to exact further concessions from the regime. Panama City appears prepared to compromise on some of the workers' long-hald grievances to avoid alterating a key constituency, but it will have serious difficulty meeting their economic demands. The regime may move to rein in progovernment leftists who hope to use public worker dissatisfaction to increase their political influence. The regime's willignoses to turn a blind eye to harasament of opposition protesters will keep tensions high and may lead to turther violence.

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USSR-IRAN: Refsenjeni Invited to Moscow

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The USSR has invited Iranian Assembly Speaker Refsenjani to Moscow in November.

Continue to probe for an opening to Tehran in the wake of renewed US-Iranian tensions.

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Hatsanjani accepted the invitation and said he hopes to visit the USSR at an opportune time. Soviet media have not mentioned the exchange.

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USSR since the Shah's fall. The Soviets might raise the possibility of a meeting with General Secretary Gorbachev to elicit political concessions from Tehran. Moscow would file to persuade Tehran to top pherasang the Tudeh Communist Party, to reduce support for the Alghan Insurgents, and to grant an increased Soviet diplomatic presence in Iran. Iran would see a visit as a major step toward better relations with Moscow and as a counter to the increased US presence in the Persian Gulf. Tehran might also see it as reinforcing Moscow's inclination to delay action on proposed UN sanctions on Iran.

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In Brief

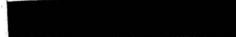


Americas



Ecuador's former Air Force Commander Vergas named Socialist presidential candidate . . . perennial coup plotter has limited support . . . erratic behavior may worsen unstable political climate,

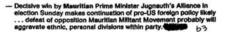
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International Financial Situation Report (U)

Issue 71

17 December 1987

Top Secret

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	NOCONTRACT (NC)	Not releasable contractors or contractor/consultants		
	PROPIN (PR)	Caution-proprietary information involved		
	ORCON(OC)	Dissemination and extraction of information to attribute the state of the properties of the state of the stat		
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Washington D.C. 205

DIRECTORATE OF INTELLIGENCE

International Financial Situation Report #71 17 December 1987

Summary

The joint communique issued by the presidents of eight Latin American countries following their summit meeting in Mexico on 27-28 November included a unified position on debt, but did not indicate any radical joint debt actions would be taken. More noteworthy, than the communique itself were the behind-the-scenes debates that led to the joint declaration. Peru, Brazil, and Argentian reportedly pushed for radical debt initiatives, including limitations on interest payments. In other developments:

- o Many international banks are girding for a suspension of payments on Argentina's foreign debt, which they believe is inevitable and could occur as early as this month, according to a reliable source. We believe a mid-December \$500 million loan from international banks will being Argentine reserves to about \$1.1 billion and should forestail a moratorium this month. To avert radical debt action in 1988, however, Buenos Aires will require at least \$1.6 billion in yet-to-be-negotiated new money coupled with quiescence from the IMP. Measuwhile, President Airosain's economic team appears to be losing control over the economy and has discussed resigning en masse in January or February.
- Brazil's \$4.5 billion bridge loan to cover 1987 interest obligations was signed on 15 December and the initial \$1.5 billion tranche will be made in three disbursements within the next month. Negotiations began on 1 December on the term sheet for a debt rescheduling and new money package but, so far, little progress has been made. The Brazilian delegation returned to the bargaining table with essentially the same proposals it brought when negotiations began on 25 September, which the banks rejected as unrealistic and vague. The negotiating atmosphere will likely become even more contentious in January If—as is likely—Brazilia does not resume scheduled interest payments.
- o The Mexican Government announced on 15 Detember new economic measures designed to fight record inflation over the longer term and lower the bloated federal budget deflett, while increasing workers' wages to help counter rapidly rising consumer prices. The move apparently stops short of the strong medicine needed to significantly reduce inflation, but some slowing is likely. Nonetheless, the austere nature of many of tts new measures may be a political liability for the government during the runup to next summer's presidential election. (S NF NC OC)

NOTE: REPORT \$72 WILL BE PUBLISHED ON 14 JANUARY 1988

KEY ISSUE

The Latin American Summit Meeting

The joint communique issued by the presidents of eight Latin American countries following their summit meeting in Acapulco on 27-28 November included a unified position on debt, but did not suggest any radical joint debt actions. According to the press, the presidents essentially appealed for more creditor cooperation to find a just and permanent solution to the Latin American debt problem and proposed various mechanisms for achieving that objective. More noteworthy than the communique itself were the behind-the-acenes debates that led to the joint declaration. According to a generally reliable source and US Embassy reporting, the debt talks were difficult and contentious. Peru, Brazil, and Argentina reportedly pushed for radical debt initiatives, including limitations on interest payments. By contrast, Colombia and Uruguay apparently opposed a joint declaration that expressed a hardline debt position because of the potential damage it could inflict on their own relatively favorable negotiating positions with banks. Generally reliable sources and US Embassy reporting indicate that Mexico effectively played the role of moderator and influenced the phrasing of the final declaration, which confined the most radical measures-such as ceilings on interest rates, devaluation of debt through secondary market discounts, or linking debt servicing to export market access-to "proposals" and emphasized that all such steps were subject to negotiation with creditors. (S NF NC OC)

DEVELOPMENTS IN MAJOR COUNTRIES

Argentina

Many international banks are girding for a suspension of payments on Argentina's foreign debt, which they believe is inevitable and could occur as early as this month, according to a reliable source. We believe a mid December \$590 million loan from international benks will bring Argentine reserves to about \$1.1 billion and should forestall a moratorium this month. To avert radical debt action in 1988, however, Buenos Aires will require at least \$1.6 billion in yet-to-be-negotiated new money coupled with quiescence from the IMF. Both commercial banks and the Fund, however, are becoming increasingly dislitusioned with the slow pace of economic reform and are ill-disposed to increase lending to Buenos Aires. (S NF NC OC)

President Alfonsin's economic team appears to be losing control over the economy. Its October reform measures—whose connectione, a tax package designed to halve the fiscal deficit, is languishing in Congress—have failed to regain the confidence of the Argentine public. Treasury Secretary Brodersonn admitted that the team has no short-term plans, and that its only long-term goals are those that the IMF has imposed, according to a reliable source. Brodersonn added that he is unable to reduce government spending, and that the Central Bank's recent decision to print 1900 million sustrales to fund unanticipated Treasury expenditures will merely accelerate inflation, which reached 180 percent during the first 11 months of 1987. (S N'R C OC)

Exasperated by their inability to stem Argentina's economic decline, the President's top economic advisors have discussed resigning en masse in January or February, according to the same source. The press reports that Foreign Minister Caputo and former Interior Minister Troccoli are frontrunners to replace Economy Minister Sourroullie. As politicians rather than economists, we believe that both men would concentrate on selling Alfonsin's economic policies to the public. A Caputo- or Troccoli-

led team might be tempted to announce radical debt action and a new economic plan simultaneously, in the hope that a moratorium would deflect domestic criticism from the austerity measures. (S NF NC OC)

Brazil

Brazil's \$4.5 billion bridge loan to cover 1987 interest obligations was signed on 15 December and the initial \$1.5 billion transhe will be made in three disbursements within the next month. The remaining \$3 billion will be disbursed in June provided:

- A term sheet for a debt rescheduling and new money package is negotiated with the Bank Advisory Committee by 15 January 1988.
- A "critical mass" of banks—probably 90 percent of the more than 700 banks with loans to Brazil—sign onto the agreement by 15 March 1988.
- o The agreement becomes effective by 16 June 1988. (S NF NC)

Negotiations began on 1 December for the term sheet but, so far, little progress has been made, according to a generally reliable source. The Brazilian delegation returned to the bargaining table with essentially the same proposals it brought when negotiations began on 25 September, which the banks rejected as unrealistic and vegue. Although Brasilia agreed to seek an IMF program, it is not expected to begin negotiations with the Fund before next year, and it refuses to link economic performance targets to commercial bank disbursements. Moreover, it insists on an interest capitalization scheme and new money equivalent to about half of its interest obligations in 1988-89. With leas than one month before the 15 January deadline and the two sides far spart on the most basic issues, the deadline will likely be pushed back. The negotiating atmosphere will likely become even more contentious in January if—as is likely—Brasilia does not resume scheduled interest payments. Bankers contend that Brasilia promised during negotiations for the bridge loan to resume payments, but Finance Minister Bresser has said Brasilia will only do so when it is assured of receiving the concessions it is seeking from banks. We expect the moratorium to dear on well into 1984. (S. NF NC)

Meanwhile, the economy continues its downward slide. Consumer demand remains weak despite recent large wage increases, and investment is expected to drop to only 18 percent of ODP this year. Economic growth will fall to 2 percent—down from over 8 percent per year in 1985-86 and well below the 6 percent needed annually to employ new entrants to the labor force. Inflation in November was nearly 13 percent and is expected to exceed 16 percent this month to finish 1987 with a record 350 percent. The Finance Ministry has recommended a fiscal peckage, but President Sarney already has overruled certain tax hikes and Congress is likely to oppose major tax increases. Moreover, Sarney has consistently failed to implement promised spending cuts, personally authorizing billions of dollars for pet projects. Although a fiscal program may be announced soon, with a presidential election almost certain next year, it is unlikely that Brasilia will follow through with any plan to reduce the public sector's borrowing requirements, which will exceed 35 percent of GDP in 1987. As inflation continues to spiral, Brasilia probably will resort to another price freeze early next year. (CNF)

Mexico

The Mexican Government announced on 15 December new economic measures designed to fight record inflation over the longer term and lower the bloated federal budget deficit, while increasing workers' wages to help counter rapidly rising consumer

prices. The program includes cuts in government programmable expenditures, lower import tariffs to foster competition, and increased prices on government-supplied goods. The government also negotiated with the private sector to grant Labor an immediate 15 percent wage increase and another 20 percent increase on 1 January 1988. According to the US Embassy, Mexican officials septch inflation to soar much higher this month and next but believe they can almost haive this year's expected annual rate of about 150 percent by December 1988. The Bank of Mexico devalued the controlled peso—which accounts for about two-thirds of all transactions—by 18 percent to bring it in line with the free market rate. (C NP)

The move by Mexico City apparently stops short of the strong medicine needed to significantly reduce inflation, but some slowing is likely. The provision increasing workers' wages was welcomed by organized labor and averted the general strike planned for 18 December. Nonetheless, the austere nature of many of the new measures may be a political liability for the government during the runup to next summer's presidential election. (C NF)

Other Latin American Countries

The Government of Peru devalued its currency on 14 December while Panamanian banks are again suffering serious liquidity problems. (S NF NC OC)

Peru

Peru devalued the official exchange rate 40 percent against the dollar Monday in an effort to stem foreign exchange losses, but rising inflation and a stagnant economy continue to undermine President Garcia's sagging popularity. Lima had devalued the official rate by 20 percent in late October but, according to the US Embassy, this falled to stem a \$40 million-a-week reserve loss that continued into November. Only 38 percent of Lima's inhabitants approved of Garcia's overall performance in a poll conducted in November. (ONF)

The devaluation, which should boost exports and slow both imports and capital flight, will ease pressures on Peru's reserves. Higher import costs, however, will add to Peru's 110-percent inflation, fueling greater labor discontent. The stagnating economy, which is plagued by lagging private investment and rapidly growing government borrowing, is likely to remain a major problem for Garcia. (S NF)

Panama

A senior government banking official stated in early December that, following six weeks of slow improvement, Panamanian banks are again suffering serious liquidity problems caused by a heavy seasonal withdrawal of deposits. The official stated that all Panamanian-owned banks—including the National Bank of Panama—are in preearlous financial positions and some fear that the failure of even one bank could trigger a panic large enough to topple the country's banking structure, according to a generally reliable source. Meanwhile, the government estimates that its budget deficit—which totaled \$185 million from January to September—will approach \$250 million for 1987 or 4.9 percent of GDP, according to US Embassy reporting. The fiscal deficit is expected to worsen next year, with the National Bank of Panama estimating it could grow to \$500 million if the government decides to resume debt payments. In an attempt to finance and reduce this deficit, Panama probably will ask its commercial creditors for \$100 million in new money and is considering a 10 percent across-the-board spending reduction, including salary cuts and a hiring freeze. Because foreign banks are unlikely

to grant new financing, Panama may be forced to enact politically unpopular spending cuts and continue to default on debt payments to governments and banks next year. (S NF NC OC)

USSR/Eastern Europe

Soviet international gold sales have risen and Soviet Foreign Trade Bank officials retordedly believe the rapid growth of Soviet hard currency indebtedness over the past two years is drawing to a close. In Eastern Europe, recent criticism of Beigrade's anti-inflation program has increased the chance that the regime's economic program will be in disarray when takes with Western creditors open early next year, and Beigrade announced it will seek an agreement with the IMF. (TS US NF)

Soviet Union

The Soviet Union has recently been a heavy seller in the international gold market, prompted by higher gold prices and the need to finance major grain purchases, according to special intelligence, Soviet spot builion activity rose by almost 50 percent between September and October, with sales reaching \$315 million. The USSR, along with other international gold producers, took advantage of higher gold prices resulting from the increases in gold demand that followed the global stock market crash, according to a generally reliable source. In addition, the USSR plans to increase gold sales during the rest of 1987 and the first quarter of next year to help finance major grain purchases, according to another generally reliable source. Soviet gold sales have likely to reach 250 tors this year. Although this would be one-fourth less than the volume sold last year, gold earnings—because of higher prices—might approach last year's level of \$4\$ billion. Another senior Soviet benking official reportedly stated that Vneshtorgbank (VTB), the Soviet Foreign Trade Bank, would seek to become an official international gold depository in 1988. The Soviets are also holding discussion with a French brokerage firm and an Italian bank to set up bullion trading relations, according to special intelligence. (TS U S NF NC PR OC)

Meanwhile, a US Embassy source reports that VTB officials believe the rapid growth of Soviet hard currency indebtedness over the past two years is coming to a close. The source also reported that VTB's current chairman, who has been in the position since 1989, will retire at the end of the year and be replaced by a Foreign Economic Commission officials. Finally, he stated VTB has yet to receive it borrowing instructions for 1988, prompting confusion and uncertainty among bank officials. (S NF)

Yugoslavia

Criticism of the government's anti-inflation program at the Yugosiav Communist Party plenum last week increased the chance that the regime's economic program will be in disarray when taiks with Western creditors open early next year. Although the plenum apparently gave the Mikulie program pro forma backing, the discussions aired considerable opposition to wage and other state economic controls. As a result, worker demands for wage hikes will jeopardize the anti-inflation effort. Party actions in support of workers that undercut Mikulie's program increases the chances—aiready about eventath his government will fall in the next six months. Meanwhile, Belgrade recently announced its intention to seek an apreement with the IMF, but failed to specify what type of arrangement—standby, extended, or another type of arrangement—it will attempt to negotiate with the Fund, (C NF)

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Asia

In Asia, the Philippine Government will not take radical actions if the remaining seven creditor banks fail to sign the commercial bank accord by 22 December, indonesia's foreign exchange reserves have dropped from \$10 billion to no more than \$6 billion as of mid October, and Japan will lower interest rates on loans made under the \$2 billion ASEAN-Japan Develorment Fund. (S NF NC OC)

Philippines

The Philippine Government does not intend to take radical action if the remaining seven of its 283 creditor banks fail to sign the \$13.2 billion commercial debt accord by 22 December, according to Manila press reports. Finance Minister Jayme reportedly rejected a proposal by Economic Planning Secretary Monsod to place interest payments in escrow to exert pressure on the intransigent banks. According to the US Embessy, Jayme is confident that the agreement will be wrapped up in time and intimated that members of Manila's Bank Advisory Committee may opt to buy out the recalcitrant banks' relatively small exposures to complete the accord. Budget Secretary Guillermo, however, did not rule out a second extension of the deadline. Failure to finalize the accord by 22 December or failure to reach agreement on an extension of the deadline would cancel a key clause backdating lower interest rates to 1 January 1987, costing the country shout \$93 million in additional interest payments. (C NP)

Indonesia

The Indonesian Center for Policy Studies (CPS), a private firm, estimates that singuish exports, depressed oil prices, rising international interest rates, and the depreciation of the US dollar against the Japanese yen will push indonesia's foreign debt to over \$50 billion by 1930, compared with about \$43 billion today, according to an untested source with access. Its study indicates that unless export revenues double during the next few years, an unlikely event in our view, given Jakarta's slow movement in reforming the economy and stimulating exports, the share of export earnings required by interest payments and principal repayments will remain above the dangerously high level of 35 percent. As a result, the CPS says that Jakarta will be forced to seek short-term relief, including additional concessional financing, debt rescheduling, or a currency devaluation. Meanwhile, indonesian officials from the Ministry of Finance (MOF) and Bank Indonesia are concerned about the depletion of Indonesia's foreign exchange reserves, which reportedly dropped from \$10 billion to no more than \$6 billion as of mid October, according to a generally reliable source. Although reserves are adequate to cover about six months of imports, Jakarta probably will soon renetter the syndicated ioan market. For example, an untested source reports MOF officials recently approached a Japanese bank for a new 4400 million loan. (S NF NF OC C)

Japan

Prime Minister Takeshita announced at the ASEAN summit meeting that Tokyo will lower interest rates on loans made under the \$2 billion ASEAN-Japan Development Fund (AJDF). According to the US Embassy, Japan's Ministry of Finance bowed under extreme pressure and agreed to lower by 0.5 percentage point the interest rates on loans from the Overseas Economic Cooperation Fund (OECP). In addition, the Japan Export-Import Bank (JEXIM) agreed to reduce the rates on its ADJF loans. As a result of these concessions, Tokyo expects to come under intense pressure from both internal and external forces to engineer a general rate reduction for all official development assistance, according to the US Embassy. China and South Korea reportedly aiready

TOP SECRET UMBRA NOFORN NOCONTRACT PROPIN ORCON

contacted the Ministry of Foreign Affairs seeking rate reductions on their OECF and JEXIM loans. Although Tokyo probably will claim that the AJDF is a unique loan program, it probably will be forced, at minimum, to offer the same low rates on all the loans it extends under the general \$20 billion capital recycling program. (C NF NC)

Africa/Middle East

In Africe, Nigeria signed its \$4.2 billion commercial bank refinancing package and and Zambian officials have met with the World Bank and IMF to discuss its economic recovery program. The IMF and World Bank are displeased with Egypt's delay in completing the first IMF review by 30 November. (C NF)

Nigeria

Lagos signed a \$4.2 billion commercial bank refinancing package on 23 November, ending 18 months of negotiations. Under the terms of the agreement, Lagos will receive a \$320 million new money facility comprised of an eight-year loan carrying an interest rate of 1.25 percentage points above LIBOR and a four-year grace period. The rescheduling covers 1986-87 maturities—\$1.5 billion in medium-term loans and \$2.3 billion in trade credits—and carries the same interest rate as the money facility. In addition, Lagos is finalizing arrangements for a 14 January meeting in London with its promissory note holders, according to the US Embassy. Lagos proposed on 22 September new payment terms and interest rate capitalization on the roughly \$3.5 billion in reconciled promissory notes. Although Lagos has rejected about \$1.5 billion in claims of a total estimated at \$9 billion, it has hinted that it might allow direct negotiations on some unreconciled claims, but would not delay the 31 December deadline for completing all works on its promissory notes. (C NF)

Egypt

Cairo and international lending institutions disagree on the progress of Egypt's economic adjustment under the IMF standby arrangement. According to the US Embassy, the Egyptian Government claims that it is in compliance with several elements of its economic program—such as unifying commercial bank exchange rates, reducing subsidies, and lowering the budget deficit. The IMF and World Bank, however, are displassed with Cairo's delay in completing the first review by 30 November. The IMF also believes that Cairo is stalling by not completing other key aspect: of its economic program—including devaluing the official exchange rate and raising in the World Bank is considering canceling the sector programs, which are not being fully utilized, and instead combining them into a structural adjustment loan. In our view, Cairo risks losing the confidence of international institutions and the subsequent loss of financial resources if it does not make a greater effort to meet adjustment deadlines and achieve its program's objectives for sustainable economic growth. Meanwhile, on 8 December, Egypt signed its Paris Club bilateral agreement with West Germany and will receive about \$480 million in export credits from Bonn, (C NF)

Zambia

Lusaka's economic recovery package has been the subject of policy discussions with the World Bank and IMF. Negotiations focused on several of the program's key policy areas—prices, interest rates, the exchange rate, money supply growth, and the budget deficit. According to the US Embassy, the institutions expect President Kaunda to announce the abolishment of most existing price controls—except for essential consumer

products—the adjustment of interest rates, and the devaluation of the kwacha in his January budget speech. Kaunds is also expected to discuss the 1988 goals for the economy, including expanditure controls and revenue increases to lower the budget deficit to 5 percent of GDP, and steps to limit inflation to 25 percent as well as flexibility in making debt service payments, currently limited to 10 percent of net export earnings. The ceiling is a major obstacle to reaching a formal agreement with the IMP. The World Bank plans a working level mission in early January to continue negotiations. Despite this progress, however, these institutions feer that the plan could fall apart if it fails to quickly achieve support of the party or general public. Success of the plan also depends on Gevernment of Zambia elimination of its arrears to the World Bank—about \$30 million is due in Pebruary—and the raising of net external financing of about \$250 million above debt service obligation of \$750 million. The resumption of debt service payments would signal a major shift in Zambia's relations with creditors and review project assistance. World Bank officials are hopeful it would further be sufficient to prompt a Paris Club scheduling. (C NF)

PINANCIAL BRIEFS

International

The IMF's enfanced structural adjustment facility (SAF) probably will not be operational by yearend, as previously planned ... several issues remain unresolved including burden-sharing among creditors, protection of the lender in the event LDCs do not repay SAF loans, and who should subsidize interest rates on the loans ... according to special intelligence, the IMF hoped to have about \$7.7 billion in new loan commitments to the SAF from member countries before \$1 December. (TSU NFNC)

Americas

Colombia's \$1 billion loan has been fully subscribed ... expect loan will be signed by end December. (S NF NC OC)

Costa Rican Central Bank President Lizano stated that the foreign exchange target for its IMP arrangement will not be met because of a shortfall in capital inflows and increase in imports ... San Jose has yet to reach agreement with commercial banks but maintains a commitment to have accord in place by 30 June 1988. (C NP)

New legislation has been proposed for Honduran debt-equity program ... payment is to be made in long-term, non-guaranteed government bonds instead of local currency ... proposal unacceptable to foreign investors and banks ... Congress failed to vote on legislation before 4 December recess, (S NF NC PR OC)

Venezuela disappointed by slow investor response to its debt-equity swap program that was approved last April ... studying ways to ease foreign exchange controls and restrictions on profit repatriation. (C NF)

Africa/Middle East

The December OAU debt summit concluded by calling on the international community to grant addition debt relief ... wants creditors to convert past official loans to grants, suspend debt service payments for 10 years, reduce real interest rates, and accept partial repayment with domestic currency ... foreign creditors unlikely to fully accept these proposals. (C NF)

A 3-4 December Paris meeting of the World Bank and major creditor governments pledged \$6.2 billion in quick disbursing financing for 17 low-income African countries undertaking adjustment programs ... due consideration will be given to the social aspects of economic adjustment, especially the impact of policy measures on the boor and the need to maintain social programs ... some creditors will provide their cofinancing as grants, while others will use highly concessional terms. (C NP)

Turkey reduced the interest rate it charges Iraq on outstanding loans from 1 percentage point above LIBOR to the LIBOR rate ... a major concession for Baghdad because Iraq pays 6 or 7 percentage points above LIBOR on its international loans. (S NP NC OC)

Kenya and the IMF completed negotiations on a \$200 million standby arrangement and structural adjustment facility ... package reportedly includes devaluation, austerity, monetary and credit expansion limits, and sectoral reforms ... despite disbursements, IMF expects little long-term improvement in the economy. (C NF)

Malawi concluded negotiations with IMF for 15 month, \$25 million standby arrangement in early December ... also working on structural adjustment facility ... commercial arrears have been reduced, payments are now current through the end of August 1987. (C NF)

Paris Club rescheduled \$80 million of Senegal's official debts in mid November ... covers all principal and interest on maturities dwn between November 1987 and October 1988 ... Date: received lengthened repayment ... lod of 16 years with a six year grace period. (Cf. b.)

South Africa made \$130 million payment to the IMF in late November, last installment of \$1 billon 1982 loan ... with payment, 30 November foreign exchange reserves fell to \$240 million ... also made \$130 million payment to commercial banks this month ... Reserve Bank Governor De Kock said that Pretoria was relieved to have paid loan off. (C NF)

Syrian foreign exchange holdings remain extremely low ... Central Bank and Commercial Bank of Syria both have little liquid funds available ... Damascus forced to rely on Arab aid and liberal financing from Arab banks and development funds to prop up reserve levels. (TS U NF)

Zaire is likely to miss the 31 December flacal defloit target established in the March 1987 IMF standby arrangement ... Kinshasa projects a \$90 million defloit, double that of second ... despite missed target, the Fund is expected to field a mission in February to complete formal review, update policy framework paper for structural adjustment facility, and conduct annual Article IV consultations. (S NF NC OC)

Europe

Romanian Pregident Ceausescu fired Finance Minister Bebe over high interest rate payments to World Bank ... has since backed off threat to suspend World Bank debt payments ... probably reviewing debt payment strategy in wake of Brasov riots ... no sign of change in rapid debt repayment policy. (C NF)

Asla

The World Bank reversed Bank policy on loans to Chins, according to special intelligence ... will refrain from financing projects that would increase China's capacity to produce steel ... decision prompted by political pressures from Japan, US, and several European countries. (S S NF)

Buoyed by its increasing current account surplus, South Korea for the first time offered losen to LDCs, according to press reports ... approved \$10 million loan to Nigeria, \$13 million loan to Indonesia, and plans to increase loans next year ... hopes to improve dellomatic relations and facilitate access to LDC markets. (C NF)

Malaysia made a loan prepayment of \$400-\$500 million to commercial creditors ... commodity price increases boosted its foreign exchange reserves to over \$7 billion, making the prepayment possible, according to untested source ... despite signs of recovery, economy still extremely vulnerable to external shocks. (S NF NC)

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SUBJECT: International Financial Situation Report #71 (U) 17 December 1987

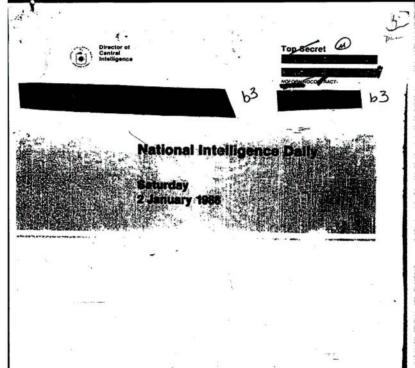
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Title:	NATIONAL INTELLIGENCE DAILY SATURDAY 2 JANUARY 1988
Abstract:	
Pages:	0023
Pub Date:	1/2/1988
Release Date:	7/7/1999
Keywords:	UNITED STATES BRAZIL MEXICO (TERROR I SMJARGENTINA (FRANCE JUS) WEST GERNAN (PHAIT I HOSTAGE) SOUTH AMERICA (LUXEMBOURG) NID (I SLAMIC JIHAD (SHAJANDERSON TERRY)
Case Number:	F-1992-01432
Copyright:	0
Release Decision:	RIPPUB
Classification:	lu .



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Contents

The Accord

Under the US-Mexican agreement, creditor banks would exchange their Mexican Government debt at a discount for as much as \$10 billion of new 20-year Mexican bonds. To make the deal more attractive to banks, the US Tressury has agreed to guarantee the Mexican bonds by lesuing bonds of its own to Mexico for about \$2 billion.

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SOUTH AMERICA:

Reactions to US-Mexican Debt Plan

Major South American debtors are reacting with wary optimism to the debt-relief scheme unveiled by the US and Mexico early this week.

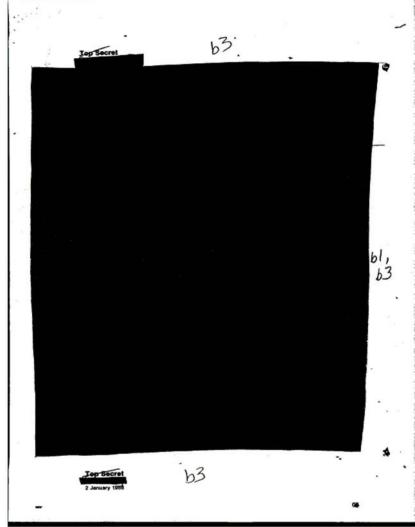
South Americans are pleased that Western creditors are embracing in the Mesican scheme a conviction held by many regional debtor countries that their commercial debt should be devalued through secondary market discounts. While key Latin debtors—including Brazil and Argentina—have called the scheme a positive development that they hope will eventually benefit other debtors, they are expressing concern that the arrangement was tallored to Medoo's situation and may not easily be applied to their own critical debt problems. 45.4

Most foreign bank creditors have welcomed the scheme, according to press reports. A number of small- to medium-sized internetional banks intend to take advantage of the opportunity to shed their Mexican debt for perhaps as little as 50 cents on the dollar, although larger banks have yet to indicate their plans for participation.

The US-Mexican debt plan is less suited to Brazil or Argentine. Both are short of foreign exchange and would be unable or unwilling to foot the bill for a comparable US Treasury bond guarantee.

Brazil would not qualify for the guarantee so long as its interest payments remained in arrears and it refused to subscribe to an IMF program. Brasilia's relations with beak creditors may become more contentious because it will probably insist on concessions as generous as those accorded Mexico but without the costs of an IMF program or large foreign exchange expenditures.

Buenos Aires probably will expect the US and creditor banks to extend it special treatment because Argentins, Ikn Maxico, has continued to honor its debt commitments A



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HAITI: Coping With Foreign Aid Cuts

Half is trying to ease the impact of recent aid cuts but probably will tace a financial crists shortly after the election period ends early next month. To cope with the suspension of \$69 million in US and mutitateral balance-of-perments support, Port-su-Prince has raised gasoline taxes, delayed paying chill servants, and announced a 20-percent cut in the salarios of military officers.

oil are sufficient to fast through early next month but foreign exchange reserves will cover no more than a normal abs-week supply of imports.

The ruling council almost certainty wents to avoid imposing austerity measures before the scheduled insuguration of a civilian president on 7 February. The military testary cuts merely reached a portion of the 90-percent increase in bese per granted to all military personnel in October. To retain the military's loyatty, the government probably will shift the burden of most budget cuts to the civilian sector. Such a move, however, raise as new round of popular unnest as the full impact of the measures begins to take hold by

WEST GERMANY-USSR: Strauss in Moscow

The visit of Bevarian Minister-President Franz Josef Strause to Moscow earlier the week is likely to increase West German optimism about Soviet domestic and foreign policies. Following the trip, Strause referred to a new chapter in Soviet-West German relations and seld the INF-Boood—which he has criticated on military grounds—could improve the climate for other arms negotiations. Strause urged General Secretary Gorbachev to accept cuts in tactical nuclear weepons in conjunction with conventional arms reductions.

The two men also agreed that a global barn on chemical wespone would be verifiable. The Bawarian state's leader called as well for expanded East-West trade and discussed possible Soviet-West German cooperation in building an experimental nuclear reactor.

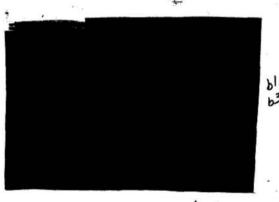




FRANCE-LUXEMBOURG: Acquittals in Diversion Case

A Luxembourg court has acquitted five French nationals on charges of violating the grand duchy's laws on technology diversion. The court, however, affirmed the Luxembourg Government's actions in May 1865 to setze the US-made ion etcher—used in microelectronics production—en route to Moscow.

The case demonstrates the difficulties in enforcing multilateria export controls, particularly differing national lever that are not designed to control multination shipping routes. The court rescued that the primary defendant, although setting lisigally to the USSIR, had not intended to ship the controlled time through Luxembourg and therefore had not knowingly violated its laws. The Luxembourg Government can appeal the court's decision but probably will not because it is more concerned about offending Peris than about enforcing COCOM rules.



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in Brief

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 Sedences radio claims town of Quyean near Ethiopian border retaken . . . rebels who had acted from three weeks ago reportedly fied . . . will boost Army morals.

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- Bengledesh President est persamentary elections for 28 February
 opposition perses say they will beyoot: ... Enthad's efforts to
 woo opposition defectors failing ... could shift local elections from
 mid-February to increase voter turnout/
- Mohammed Abdul Munim appointed Bengladesh Finance Minister
 honest, efficient technicorat ... had held commerce and
 agriculture portfolice ... Ershad wents to maintain competent
 conomic leadership during current turnost.

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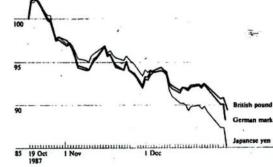
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Decline in US Dollar Since 19 October

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19 October Exchange Rates=100



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Special Analysis

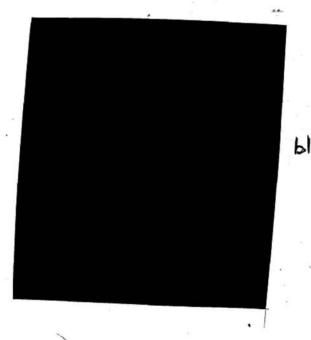
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PAGE: 0026

FOR 20 FEBRUARY-1988--SUBJECT: LATIN AMERICA BRIEF

1. MEXICO: FOREIGN POLICY PLATFORM

RULING-PARTY PRESIDENTIAL CANDIDATE CARLOS SALINAS'S FIRST

MAJOR FOREIGN POLICY SPEECH EARLIER THIS MONTH CALLED FOR A MORE LIMITED MEXICAN ROLE IN WORLD APPAIRS, REFLECTING AN INCLINATION TO FOCUS ON DOMESTIC ISSUES AND AN INTENT TO KEEP FRICTION WITH WASHINGTON TO A MINIMUM-AFTER HE TAKES OFFICE.

SALINAS CONTENDED MEXICO CITY SHOULD SERVE POPULAR INTERESTS IN INTERNATIONAL AFFAIRS AND BE NEITHER "ACTIVIST NOR ADVENTUROUS."
SALINAS BELIEVES MEXICO'S ROLE IN THE CONTADORA PROCESS WAS THE KIND OF ADVENTURE THAT DID NOT HELP MEXICO.

SALINAS PLEDGED CONTINUED COOPERATION WITH THE US

IN AN EARLIER CAMPAIGN SPEECH, SALINAS SAID NATIONAL PRIORITIES TAKE PRECEDENCE OVER EXTERNAL DEBT PAYMENTS BUT TEMPERED THE COMMENT WITH A REMINDER THAT THE LOANS PINANCED NECESSARY PROJECTS.

SALINAS WILL NOT ABANDON THE BASIC TENETS OF MEXICAN FOREIGN POLICY--SELF-DETERMINATION AND NONINTERVENTION--BUT HE

APPEARS READY TO BACK AWAY FROM WHAT HE SEES AS UNPRODUCTIVE FORAYS INTO THE INTERNATIONAL ARENA, LIKE CONTADORA.

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Title:	CUBA - NICARAGUA - EL SALVADOR: ARMS TO THE FMLN
Abstract:	
Pagest	0001
Pub Date:	12/18/1989
Release Date:	11/9/1998
Keywords:	MEXICO (CUBA) HONDURAS JINSURGENTS INI CARAGUAN JGUATEMALA JARMS (CUBAN GOVERNMENT) ELECTION
Case Number:	F-1997-01843
Copyright:	0
Release Decision:	RIPPUS
Classification:	U

CUBA-NICARAGUA-EL SALVADOR:

Arms to the FMLN

The Cuban Government reportedly plans to give the Salvadoran insurgents more arms including SA-7s, minimizing Managua's involvement as the Nicaraguan election approaches.

Havana's reported agreement to increase deliveries of SA-7s and other weapons implicates Cuba in past deliveries, possibly including the missiles found in the air crash late last month. Cuba and the Salvadoran rebels probably can choose from a number of other—but more difficult—supply routes. The FMLN already obtains logistic support through Mexico, Honduras, and Guatemala!

Any sizable increase in deliveries almost certainly would require use of Nicaraguan territory and facilities, but Managua probably will avoid firsthand involvement for now. The Sandinistas are not likely to abandon their jong-term commitment to the FMLN

Title:	(EST PUB DATE) COLOMBIAN OPIUM POPPY CULTIVATION INCREASING (DELETED)
Abstract:	
Pagest	0004
Pub Date:	5/1/1991
Release Date:	6/15/2001
Keywords:	MEXICAN [TRAFFICKERS] COLOMBIAN [OPIUM] POPPY OULTIVATION [POPPY] INCREASING
Case Number:	F-1994-01751
Copyright:	0
Release Decision:	RIPPUB
Classification:	U

Colombian Opium Poppy Cultivation Increasing

Scattered opium poppy cultivation in Colombia has been reported since the late 1970s, but

indicates that ordern cultivation may be expanding to more significant levels. The reasons behind this development are not yet clear.

The Erst Signs

Since the fate 1970s there have been several mostly unconfirmed, reports of uplum cultivation in silect scattered areas of Culumbia. Other reporting ougested that Mexican traffickers come to Culumbia during the late 1970s and again in 1989 with seed and rechnology for perpopulativation.

The option plant can be grown throughout most of Colombia. Only the immediate Atlantic and Pacific coastal areas and the higher defeations of the Nodes are not agronomically suitable for perpy cultivation. Continuous conditions for peops, cultivation are found along the slopes of the Andes between 1,760 and 1,000 meters desiration—areas with fertile voil, adequate rainfall, and favorable temperatures. Purpy in Colombia can be grown as an anough plant with about a fost-month growth cycle, permitting three draws per year from a wingle field. We believe that the profits from such a cultivation cycle are almost certainly greater than those realized from the perconnial documents with the profits come, which recovers a much investment.

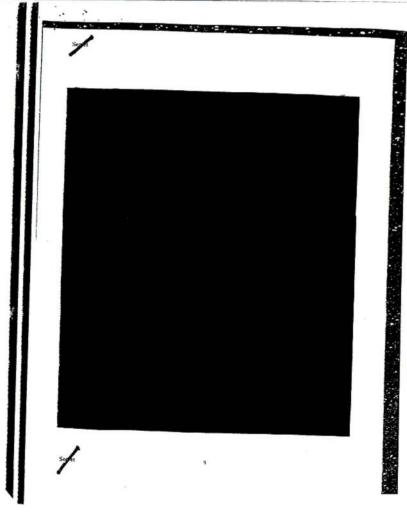
Evidence of Expansion

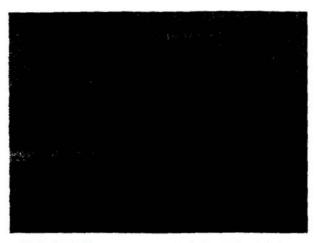


- To achieve a four-munth, three-harvest-persyear growing cycle, at feasts, some growers in Columbia are transplanting purps seedlings into fields from nursence instead of simply broadcasting the seed directly into fields as is done in most other countries. This technique of purpsy cutivation significiants, shartens the time required for planted fields to reach matures.
- Growers also are reportedly staggering plantings so that barsesting occurs throughout the year, producing a nearly continuous supply of opt-

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Major Drug Groups Implied

Groups previously focused on the cocume grade, including some from Call and Medellin, are getting into the heroin business.

Cali- and Medeilin-based traffickers are encaraging some farmers to switch from light crops or coca to aroun 2-905. may be cultivating poppy and processing benda.

While the reasons for this at eving interest in her unare not yet iffer, we worked that withe Guinning, receipme trafficker, as weaking to share of other pronewes. Nationally of 6 days for particular, imaging groups started in the 15th of trafficking it manages along the processing of the control of the up against that trade and the US occaine market exploded, occaine merged as a more lucrative market. While occaine trafficking groups operating out of Colombia are not presently under severe pressure, a source with access says that a variety of traffickers now realize the enormous profits inherent in the heroin trade. The second of heroin has obtained to the second of heroin harders and the second of heroin harders are second of second of heroin harders and heroin harders with hard force.

Title:	SPECIAL ANALYSIS - COLOMBIA: OPIUM POPPY CULTIVATION ON THE INCREASE
Abstract:	
Pages:	0002
Pub Date:	12/3/1991
Release Date:	6/15/2001
Keywords:	MEXICO GUATEMALA HERDIN COLOMBIA DRUG TRAFFICKER OPIUM POPPY CULTIVATION
Case Number:	F-1994-01751
Copyrights	0
Release Decision:	RIPPUB
Classification:	U



Special Analysis

COLOMBIA:

Opium Poppy Cultivation on the Increase

A significant expansion of opium poppy cultivation during the past year has accompanied increased Colombian drug trafficker interest in the international herois market. Although production potential is still small by global market standards, at the current rate of expansion opium cultivation in Colombia could exceed the total from Mexico and Guatemala—the principal Latin American opium producers—by the end of next year.

Scattered, small-scale opium poppy cultivation has been noted in Colombia for more than a decade

most entrepreneurs
involved are midlevel cocaine traffickers, the major cartels may be
vine in

Heroin production in Colombia is still minor and the quality is variable, but the cartels may be getting ready to carve out a niche in the US market if heroin use increases, as Colombian trafficker believe may occur over the next few years.

The development of a production capability

The development of a production capability flow would allow them to rapidly exploit any expansion, and an indigenous opium source would let them control the cycle from acquisition of the raw material to final distribution.

Senior Colombian officials are concerned about the potential threat of the beroin trade but have yet to choose an avenue of attack. Bogota claims to have manually eradicated some 1,300 hectares of poppies, but this approach diverts large numbers of police and military from other counternarecties and security operations. Moreover, most field are replanted after government forces leave

The government fears that traffickers will exploit environmental concerns caused by large-scale spraying, possibly creating a political backlash.

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COLOMBIA: Opium-Poppy Cultivation Expanding

Colombia are now devoted to opium cultivation, making it the targes grower in the Western Hemisphere, although the total could be significantly greater

large profits derived from poppy cultivation have enticed both firsttime and experienced narcotics growers, according to various sources, President Gaviria is committed to destroying poppy cultivation, even at the cost of diverting critical 3,400 hectares of poppy fields in the first three months of this year as compared with 1,145 hectares for all of last year.

Comment: Bogota will continue aggressive poppy cradication, although it probably will ask Washington to increase counternarcotics aid to help maintain occaine interdiction efforts. Growers and traffickers will respond by replanting, reducing field size, intercropping with legal agriculture, and firing on spray aircraft. Because poppies can be easily and quickly replanted in sprayed fields and because a single field can produce three crops a was a sagressive year-round eradication effort is recognited for control.







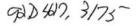
Directorate of Intelligence 11 December 1991

The Andean Nations and Mexico: Building a Framework for Regional Antidrug Cooperation

Summary

In seeking common initiatives on counternarcotics, the Andean nations—Bolivia, Colombia, Ecuador, Peru and Venezuela—and Mexico have created a patchwork of overlapping, sometimes contradictory diplomatic agreements, many of which have yet to be implemented. The six Latin American Presidents attending the upcoming antidrug summit with the United States will carefully weigh the potential domestic costs of any new regional cooperation proposals, preferring accords on noncontroversial issues such as precursor chemical controls.

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A Mosaic of Agreements

Antidrug cooperation efforts among the Andean nations and Mexico operate against a backdrop of diverse multilateral, regional and bilateral agreements. The UN, the Organization of American States (OAS), and the European Community have taken an active role in negotiating multilateral accords on a variety of topics, including extradition and evidence-sharing. For example, the OAS has fostered judicial cooperation proposals through its Inter-American Drug Abuse Control Commission.

The Rio Group and the Andean Pact have served as forums for regional counternarcotics agreements. The Rio Group last April resolved to work towards adopting a common approach to fight drug trafficking and narcotics corruption. In May, the Pact sponsored the Caracas Declaration, which covers money laundering, arms sales, and suspect air traffic.

Colombia and Peru in particular have concluded bilateral antidrug pacts with neighboring countries. Colombia has several treaties with Venezuela and Peru on joint border operations against traffickers.

Peru has accords with Bolivia and Colombia on intelligence sharing, dating from 1989. Mexico has forged several accords with Central American neighbors.

Some national counternarcotics organizations also use informal arrangements to work with their counterparts elsewhere. Colombia and Bolivia open their police training courses to participants from other Andean nations. Antidrug forces in Colombia and Ecuador for several years have routinely cooperated on operations in Ecuador's northeastern border region, according the US defease attache in Quito.

Often Immaterial

The Andean nations and Mexico have given little weight to this framework of agreements in coordinating their fight against drugs, for a variety of reasons. Indeed, some governments apparently lack complete records on pacts concluded by earlier administrations, signatories in many cases have been slow to formalize accords. For example, after three years of debate, Bogota has still to ratify the 1988 UN Vienna Convention on narcotics, whose provisions on extradition have been controversial in Colombia and now are at odds with the country's new constitution. Moreover, several cooperation pacts have yet to be fully implemented. An Andean regional police information center set up in 1987 seldom has been used, largely because participants are reluctant to share

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sensitive data with neighboring countries.

Inefficiency and corruption appear to have hobbled other agreements. Although many Colombian traffickers operate in Bolivia, Colombia has made no extradition requests under its 1928 bilateral treaty—perhaps because it has little faith in Bolivia's notoriously slow and corruption-plagued judicial system.

In addition, some accords establish overlapping mechanisms. Several nations—Bolivia and Peru, Colombia and Ecuador, Colombia and Venezuela—have bilateral intelligenco-sharing agreements whose provisions are duplicated in regional pacts such as the South American Agreement on Narcotics and Psychotropics, as well as in the multilateral UN Vienna Convention.

Other regional integration moves may work against efforts to cooperate on counternarcotics. The Andean Pact's "open skies" civil aviation policy may facilitate cocaine shipments by loosening customs regulations. Similarly, the Pact's free trade provisions may ease the transfer of funds to launder drug money.

Prospects

The six Presidents probably will view with caution any efforts to forge additional regional antidrug accords. They may be especially wary of committing scarce resources to fulfill regional obligations. President Fujimori probably will point out that fiscal restraint-key to Peru's economic reforms-sharply limits his ability to fund counternarcotics efforts. Bolivia's President Paz Zamora and Ecuador's President Borja may make similar pleas. President Gaviria almost certainly would emphasize that Colombia, having taken a lead role in the fight against drugs, has already paid a heavy price in lives as well as resources.

Some other leaders may argue against a sweeping regional approach. Borja may claim, as he has before, that his country's successful eradication policy separates it from Bolivia and Peru. In turn, Paz Zamora probably would seek to play down Bolivia's trafficking problem, hoping to allay fears at home that broader interdiction efforts could increase drug-linked violence, as they have in Colombia.

Sovereignty concerns could also limit the scope of agreements. For example, Venezuelan military officials have insisted on retaining control of joint antidrug operations and of intelligence gathered in their country Similarly, Peru and Ecuador probably wounder

unwilling to consider cross-border operations now, in the midst of talks on a



Nevertheless, some regional cooperation efforts probably would easily find common ground, particularly on noncontroversial issues.

attendees at recent OAS and Andean Pact talks favor forging agreements on precursor chemical controls, money-laundering legislation, and

boundary dispute; they probably would also be lecry of accords on intelligence

agreements on precursor chemical controls, money-laundering legislation, and judicial reform. In addition, some of the Presidents probably would view multilateral pacts as a useful counter to domestic criticism that the United States dominates bilateral antidrug efforts. Both Mexico's President Salinas and Paz Zamora, for example, have faced sharp controversy at home over US involvement in counternarcotics operations in their respective countries.

Bolivia: Antidrug Agreements

	Agreement		Operation	der/intellig Sharing	Controls		rop Laund
Colombia	• 1991	●1928	•1989	●1989			•1991
Ecuador	•1991 •1991	•1913	•1989	●1989 ●1991	•1991	•1991	•1991
Peru	•1988 •1989 •1991	•1916	•1989	●1989			•1991
Venezuela	•1989 •1991		●1989	●1989			•1991
Mexico	•1990						

[•]Multilateral or Regional

[•]Bilateral

Colombia: Antidrug Agreements

	Agreement	Extradition	on/Operation	Sharing Sharing	Control		Launder
Bolivia	●1991	●1928	●1989	●1989			•1991
Ecuador	●1991 ●1991		●1989	●1989 ●1991			•1991
Peru	●1991 ●1991 ●1991	●1989	●1989 ●1989	●1989 ●1989		●1989	•1991
Venezuela	●1991 ●1978 ●1991		●1989 ●1989 ●1991 ●1990	●1989			●1991
Mexico	•1991	●1928					

[•]Multilateral or Regional

[•]Bilateral

Ecuador: Antidrug Agreements

	Agreement	1	on Operations		Controls	Substitutio	Launder
Bolivia	•1991	•1913	●1989	●1989 ●1991	•1991	•1991	•1991
Colombia	•1991 •1991		●1989	●1989 ●1991			•1991
Peru	•1991 •1991 •1985		●1989 ●1991	●1989			•1991
Venezuela	●1991		●1989	●1989			●1991
Mexico	●1991						

[•]Multilateral or Regional

[•]Bilateral

Peru: Antidrug Agreements

Bolivia	•1991 •1989 •1991	●1918	●1989 ●1989	●1989 ●1989	●1989		•1991
Colombia	•1991 •1991 •1991	•1989	●1989 ●1989	●1989 ●1989		●1989	•1991
Ecuador	•1991 •1991 •1985		●1989 ●1991	- ●1989			●1991
Venezuela	●1991		●1989	●1989			•1991
Mexico	●1991 ●1985				,		

•Multilateral or Regional

•Bilateral

Venezuela: Antidrug Agreements

	Cooperation Agreement Extr	futual Joint Bords adition Operations	Intelligence Sharing	Precursor Eradication Chemicals Controls Substitution	Money aunderin
Bolivia	• 1991 • 1991	• 1989	• 1989		1991
Colombia	• 1991 • 1991 • 1978	• 1989 • 1991 • 1989	• 1989 • 1989		1991
Ecuador	• 1991	• 1989	• 1989	-	1991
Peru	• 1991	• 1989	• 1989	-	1991
Mexico					

Multilateral or Regional

Bilateral

Mexico: Antidrug Agreements

	/Cooperat	ion Mutual Extradition	Joint Border Operations	Intelligence/ Sharing C	Precursor /Ere Chemicals and/ ontrols Subst	dication Money for Crop Laundering
Bolivia	●1990					
Colombia	●1991	●1928				
Ecuador	●1991					
Peru	●1991 ●1985					
Venezuela						

[•]Multilateral or Regional

[•]Bilateral

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Abstract:	
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Directorate of Intelligence 13 December 1991



Initial Latin American Thoughts on the Second Antidrug Summit

Summary

The six Latin American governments participating in the coming antidrug summit-Colombia, Bolivia, Peru, Venezuela, Ecuador, and Mexico-are just beginning to focus on potential agenda items. Initial reporting indicates, however, that the five Andean presidents intend to use the meeting to press Washington for greater economic-especially trade-benefits. All the Latin presidents probably will support some multilateral antidrug initiatives, partly to deflect domestic criticism that Washington unduly influences their countries' counternarcotics efforts. To boost their standing at home, most of the participants will seek multilateral recognition for their antidrug efforts and will try to avoid embarrassing or politically sensitive topics such as official corruption, interdiction and eradication performance, and the role of local militaries in the war on drugs. The Andean leaders reportedly will consult on their presummit positions in January;

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Colombia President Gaviria appears likely to support expanded regional antidrug enforcement operations, while pressing the United States for trade concessions he views as essential to maintaining public support for the antidrug war. Colombia's pointman for the summit, Gabriel Silva, suggested on Tuesday that the summit be postponed until mid-March to allow time for at least two multilateral working-group sessions. Silva says that, before the summit, Bogota hopes to conclude with Washington a bilateral assets-sharing agreement and a tax-information-exchange treaty, the latter to help combat money laundering. At the summit, Bogota reportedly will endorse a regional antinarcotics training center to standardize operational capabilities, a multilateral information exchange mechanism, and judicial cooperation agreements. In addition, Bogota will encourage more regional interdiction efforts, like Support Justice III, but will insist that the United States provide resources. at least equal to what it has supplied for the current operations.

Nevertheless, Gaviria's agenda for the summit probably will include contentious bilateral trade issues-including intellectual property rights and import restrictions for cut flowers, textiles, and coffee, He reportedly will seek US concessions to allay growing domestic criticism of the government for "prematurely" lowering trade barriers. Gaviria is especially concerned about a US call for negotiations on Colombian textile imports—which, he says, violates the spirit of bilateral antidrug agreements—and intends to raise the issue with President Bush,

Bolivia A variety of reporting suggests that President Paz Zamora expects the summit to provide international recognition of his government's progress in fighting drugs. He probably hopes that multilateral counternarcotics accords will help deflect domestic criticism that Washington dominates Bolivia's antidrug program. Nevertheless, proports indicate that Paz Zamora will press the United States for additional economic aid, including balance-of-payments support. La Paz may reiterate its claim that such assistance is vital to expand alternative development efforts, the heart of Bolivia's voluntary compensated coca-eradication program. Paz Zamora may also seek to deemphasize the need for a military role in the drug war in the hope of forestalling conflicts with his congress over US military trainers already incountry.

Peru The Fujimori administration, which is engaged in a struggle with the legislature over sweeping economic reform and pacification decrees, has yet to focus on the summit. Like the other regional participants, however, President Fujimori seems likely to seek greater economic and trade benefits from Washington--which his advisors say are vital to the crop substitution plans that anchor his antidrug strategy. As he reportedly has done before, Fujimori may

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consult with Bolivia's Paz Zamora on strategies for dealing with Washington on antidrug issues. His recent public statements suggest that Fujimori may press other summit participants to acknowledge that coca growers are victims of the narcotics trade and that alternative development and economic growth-not interdiction and eradication—offer the best hope of reducing the coca supply.

Ecuador Lameduck President Borja

is expected to stress his government's success in keeping Beuador free of coca cultivation and, in accord with his own policies, may endorse an enhanced antidrug role for armed forces throughout the region.

He almost certainly will support any Andean resolution favoring economic growth and cocareplacement programs as the best antidotes to the lucrative drug industry.

Yenezuela President Perez, like most of his regional counterparts, has been preoccupied with recent regional summits. In addition, recent reporting indicates that Interior Minister Izaguirre, who heads Venezuela's antidrug "Unified Command," intends to resign by the end of this year. Nonetheless, the Venezuelan Government—with which the Embassy hopes to conclude a precursor chemical and a radar deployment agreement prior to the summitalmost certainly will join its neighbors in criticizing what they see as increasing US trade protectionism.

Mexico Although Mexican officials have indicated that President Salinas will attend the summit, Mexico City has yet to formally accept President Bush's invitation; we have seen little evidence that the Mexicans have focused on agenda items. Like other Latin participants, however, Salinas is likely to stress the strides his administration has made against drug trafficking, including the seizure of about 125 metric tons of cocaine over the last three years.

out that much of Mexico's trafficking activity stems from drug production in the Andean countries, necessitating closer cooperation with them.

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Case Number:	F-1994-01751	
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Release Decision:	RIPPUB	
Classification:	U	



COLOMBIA: Opium Poppy Cultivation Spreading

The area under opium poppy cultivation in Colombia has risen

dBecause opium poppy plants mature i only about four months, more than one crop can be grown in the same field each year, as is normal in Mexico and Guatemala. Colombian harvestable cultivation.

has reached 28,000 hectares this year.

Comment: Colombia's harvestable opium cultivation probably will be surpassed only by Burma's 160,000 hectares this year. The aerial eradication program has sprayed about 6,000 hectares since February, but, because of multiple cropping, respraying is necessary and is most effective when the crop is about three months old. Much of the harvest lost to spraying may be made up because Colombian yields will increase as growers become more proficient.

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The Mexico Newsletter

PRI Hardliners Gain in Cabinet Shuffle

Although Mexican political pundits had predicted a round of Cabinet moves in early 1993, most believed Salinas would make changes only to bring some key advisers into the Cabinet. To their surprise, Salinas replaced the Secretary of Government, who oversees internal security and elections, and the Attorney General. These changes, together with a shuffling of key appointments in the Institutional Revolutionary Party (PRI), suggest that Salinas is strengthening his control over domestic politics well before campaigning begins for national elections in 1994.

The new Government Secretary, Patrocinio Gonzalez Garrido, is a former governor of Chiapas

Other changes also reflect Salinas's intention to exert tighter control over domestic politics. Paredes's predecessor, Arturo Nunez, takes over as director of the Federal Electoral Institute, which controls key functions in national elections. Meanwhile, another official from Chiapas—well-known for his genius at getting votes for the PRI will become responsible for

selectoral affairs under Secretary Gonzalez.

Salinas appointed Jorge Carpizo, the wellrespected head of the Mexican Human Rights Commission, to become the new Attorney General. Carpizo, who has a reputation for integrity, is credited with persistence in investigating human rights violations by police during the past two

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Political Developments3
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The Mexico Newsletter

February 1993

years. His appointment signals that Mexico City will be more sensitive to—and perhaps more responsive to—international criticism of its human rights record.

Meanwhile, Salinas's replacement of the Secretary of Energy, Mines, and State Industries with one of his closest confidants, Emilio Lozoya Thalmann, widens the field of politicians seeking the PRI presidential nomination in 1994. Lozoya's appointment to the Cabinet gives him the opportunity to prove his political talents before jockeying among presidential aspirants begins in earnest later this year. Lozoya's chances to get the nod from Salinas could dim, however, if other touted contenders-especially Mexico City mayor Mahuel Camacho Solis and Social Security Institute director Emilio Gamboa Patron-receive Cabinet appointments later this year, as is widely speculated.

Coming Events

7 February

Gubernatorial, state legislative, and municipal elections in Baja California Sur

21 February

Gubernatorial, state legislative, and municipal elections in Guerrero, Hidalgo, and Quintana Roo.

19-21 February

Attorney General Carpizo attends the Central American Antinarcotic Summit in Belize. The Mexico Newsletter

February 1993

Political Developments

New violence erupted following disputed municipal elections in southern Mexico. The ruling party, while focusing on creating more effective organizational groupings,

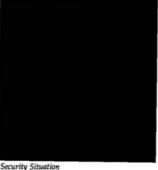
Postelection violence in Oaxaca and Michoacan since December has left several dead and many wounded; more confrontations between opposition militants and police are likely,

The violence resulted from efforts by government security forces and ruling party officials to dislodge leftist opposition demonstrators from municipal buildings that they had taken over to protest vote fraud in recent local elections. In Michoacan, a Party of Democratic Revolution (PRD) stronghold, state officials have forcibly displaced the PRD from at least five townhalls. Although Mexico

City has declared that state authorities are to resolve electoral disputes, PRD leaders have organized marches to the Federal District from Oaxaca and Michoacan to highlight their grievances and to hold talks with newly appointed Government Undersecretary Paredes. The violence is likely to spill over to elections in Guerrero scheduled for 21 February unless a compromise is reached soon.

The PRI will unveil plans restructuring the party to broaden its membership.

The party's three traditional corporatist sectorspeasants, organized labor, and an amalgam of bureaucrats, technicians, and middle-class voters known as the popular sector-will be integrated into six distinct units within the party. One of these clusters, the Union . Movement, will organize labor groups not already part of the Confederation of Mexican Workers, the PRI's formal labor arm. Other groups will attempt to capture issue-oriented voters who have shied away from PRI membership in the past.



The National Commission on Human Rights (CNDH)—the government's premier human rights organization-has exonerated the military High Command of alleged complicity in a high-profile case of human rights abuse. According to Mexican press, the CNDH ruled last month that enlisted soldiers who burned homes and tortured Chihuahua Indians in October were not under orders from their superiors. The military was found to have properly investigated the matter, charged the appropriate soldiers, and reimbursed the victims. The military's prompt and open investigation probably has bouyed its checkered image with the Mexican public.

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Friday, 28 January 1994







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	Top Sceret
 Contents	
Mexico: Government Broadening Chiapa	s Strategy

Top Secret

MEXICO:

Government Broadening Chinpas Strategy	
The government and the military are pushing to uprixing while augmenting longer-term counter	
The government yesterday signed as accord with for independent electroal authorities, a prohibition funds, and an electoral frand prosecutor. Salinas is leaders in Chiaphas and creased three commissions. The Congress recently approved his amnesty offer Government officials have consulted with leftisst Party leaders on negotiating nactics.]	on party use of governmen as met with indigenous to investigate grievances. For all insurgents,
reduced counternarcotics operations by half so the 25,000 antidrug troops and all of its helicopters of	ulitary has temporarily at 15,000 of its an be redirected to vived military interest
Comment: Salinas's public moves are probably is antigovernment sentiment, while his consultations serve to dilute inevitable political attacks during a Yesterday's accord provides for unprecedented protone measures, particularly prosecution of fraud,	with the opposition may the presidential campaign. odemocracy provisions, but
partially processed or trans.	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
The military is poorly prepared for counterinsurger	ncy operations.
Although the armed forces probably will receive su inexpensive basic weapons, budgatary constraints transports aircraft and other items. Diversion of at- forces to Chiapas will almost certainly continue ev- settlement is reached and may significantly duminic radication expabilities this year.	may force it to forgo buying least some counternarcotics on after a political

Title:	MEXICO: (DELETED)
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Pagesi	0003
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Directorate of Intelligence

Intelligence Memorandum Office of African and Latin American Analysis 23 February 1994

2 8 FEB 1994

Mexico:

Summary

The unexpected peasant revolt that crupted in January has left Mexican politicians and voters with an unsettled playing field and a broad range of vexing political, economic, and social questions to address.



-

On The Ground in Chiapas

Peace talks between the Mexican Government and the Zapatista National Liberation Army (EZLN) have begun

spokesperson Subcommander Marcos also has emphasized the guerrillas' desire for more equitable land distribution, another key rebel complaint, and called for the creation of an autonomous zone that would permit the EZLN to govern eastern Chipas without Mexico City's interference. He has warned that the rebels would launch new attacks if the government attempted to soloste them politically.

The government has made some concessions to the rebels as part of its measured response to the uprising. Mexico City has created two demilitarized "buffer zones" in EZLN-held territory and sanctioned a rebel request that Mexican noneovernmental organizations form a security cordon around the size of the talks.)

Pages: 3-6

Exemptions: (6)(4) (6)(3)

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Directorate of Intelligence
Intelligence Memorandum
Office of African and Latin American Analysis
S May 1994

Mexico:

Summary

6 MAY 1534

Negotiations between the Mexican Government and the Zapatista National Liberation Army (EZLN) have been inconclusive

Renewed fighting in Chiapas would exacerbase other pressures on the government and the ruling Institutional Revolutionary Party (PRI).



Background

After an initial attempt last January to put down the Chiapas rebellion militarily, the Salinas administration adopted a conciliatory approach aimed at quieting its political critics and reassuring the international community and financial markets. The government declared a unilateral cease-fire on 12 January and offered to negotate. The rebels, probably hoping to acquire a forrum and boost their political credibility, agreed to talks mediated by Catholic Bishop Samuel Ruiz. On 2 March, the two sides reached a tentative agreement consisting of Mexico City's responses to 34 EZLN demands. The government already has made good on some provisions, the most important being a package of electoral reforms approved by Congress on 24 March.

Rising Tensions

The failure over the past two months to reach a definitive settlement is causing growing friction involving the rebels, Army, and local landowners. The EZLN, which announced in early March that it was dissatisfied with the government offer, has threatened new attacks in response to Army activities in the area--parolling, detaining suspected rebels, and collecting intelligence. The seizure of an estimated 20,000 hectares of private land by the EZLN and other peasant groups in recent and other vested interests in Chiapas resent what they see as Mexico City's appeasement of the rebels.

And they have stepped up harassment of suspected EZLN members and their supporters.

President Salinas recently has redoubled his efforts to calm anxieties in Chiapas. In a meeting with cattlemen on 19 April, he pledged to restore order in the region and prevent additional land takeovers, according to press reports. One cattleman said that his group supports negotiations with the EZLN, but cautioned that the situation with regard to land seizures is "critical" and that some landowners will act to defend their property. In addition, Mexico City's decision to release 16 suspected rebels and its conciliatory rhetoric may have caused the EZLN's mod to soften. A rebel communique of 22 April announced the suspension of the EZLN's "red alert" and the resumption of discussions within the movement over new talks.

¹ In the past, landowners have used private armies, called *Brigodus Blancas*, to evict squatters. (U)

Pages: 3-8

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Title:	(EST PUB DATE) SECURITY ISSUES
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The Mexico Newsletter

August 1994

Security Issues

The government has stepped up efforts to negotiate with the rebels in Chiapas

The EZLN.

meanwhile, has called for a naronal convention to address social problems facing Mexico and has
reiterated its commitment to finding peace. Nevertheless, isolated armed clashes in Chiapas and
other states—notably Guerrer and Quazia—are on the rise.

Salinas has also initiated two legislative bills that would increase the penalties for crimes involving the possession of arms, organized crime, and drug trafficking. According to press reports, possession of firearms normally carried by the armed forces, previously a minor infraction, would become a serious crime-roughly equivalent to a felony under US statutes—and release from custody on bail would be proscribed. (CNF)

The EZLN is planning to hold a national convention from 6 to 9 August in Chiapas to address the social and political problems that face Mexico. facording to press reports, discussion points include: the peaceful transition to democracy, the inviolability of the state party system, civil resistance, defense of the vote, and outlining a national development strategy. Moreover, the rebels have decided to draw up a "civil disobedience plan" to defend the "will of the people" whenever necessary. Delegates to the convention will come from various citizen's groups but must be approved by an organizational commission; so far, 90 rural and civic organizations have agreed to attend:

Clashes between armed groups and government security agencies are on the rise. Approximately 1,000 peasants confronted local officials and briefly kidnapped a town mayor in Chiapas in





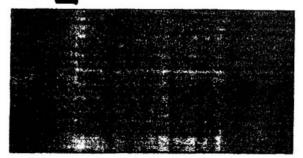
The Mexico Newsletter

August 1994

early July. In Guerrero, a group known as the Southern Liberation Army (BLS) has been recruiting members in isolated towns and may have adopted EZLN-like tactics and strategies. For example, the group recently raided several ranches and stole 400 head of cattle, according to press reports. In addition, a group of 25 state judicial policemen were ambushed in the town of Olinala-presumably by the ELS-resulting in the death of one policeman and prompting state authorifies to seek Army assistance in combing the area for possible hidequits. In Cavaca, a state judicial policeman was killed and several others injured in an ambush by unknown parties.

readily resorting to violence, and the number of individuals thought to be participating has increased over the last lew months. PRI candidate Zedillo,

announced a 10-point national security plan in a speech in violence-ravaged Guadalajara last month. The plan emphasizes coordinating the activities of various branches of the police, launching a national crime-prevention campaign, reinforcing the independence of the judiciary branch, and controlling the abuse of power by officials. According to press reports, the outline was well received.





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Intelligence Report



19 January 1995

Office of African and Latin American Analysis

19 January 1995

Implications of the Mexican Crisis for US Trade and Investment.



EFIN-60

The reverberations from Mexico's financial crisis probably will adversely affect US exports elsewhere in the region, slow Latin American efforts to integrate with Mexico and John NAFTA, and Increase Brazil's chances of becoming the hub of a South American free trade area.

- Higher interest rates worldwide and decreased availability of financing would dampen investment growth and consumption, causing the demand for US goods to be lower than previously expected.
- -- At the same time, the steep fall of the peso probably will cause Mexican goods to displace those of other countries in the US market, a trend that could increase trade friction with Central American and Caribbean governments upset by the temporary withdrawal of the proposed Interim Trade Program.
- Brzzil's proposal to forge a South American free trade area may become more attractive if other countries believe Mexican imports would present stiff challenges to domestic producers and if they worry about the effect of NAFTA membership on their trade deficits.

On the other hand, the tumnit in Mexico could lead to greater US investment opportunities in Latin American countries not suffering from Mexico's ills.

- Reduced lending and some governments' desire to improve foreign investors' perceptions of their policies are likely to spur the privatization of state enterprises.
- Moreover, Latin governments' recognition of the need for increased direct foreign investment and for financial market reforms could help reduce barriers to US firms and provide arguments for enhancing protection for intellectual property rights.

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Sceret NOFORN NOCONTRACT

The Financial Markets' Impact on Latin American Imports

Foreign investors' shift away from emerging markets in the wake of the Mexican debacle has reduced the chances that Latin America—excleding Mexico—will post an increase in its GDP growth rate from 3 percent in 1994 to 3.7 percent during the next three years. At a minimum, even if Latin American governments can attract portfolio capital back, corporations and public-sector entities probably will face delays in placing bonds for investment projects due to turmoll in international financial markets and even higher interest rates due in part to risk premiums. If investors remain uneasy about Latin American leaders' ability to keep their economic programs on track—especially in Argentina and Brazil—and rising US interest rates further diminish the attractiveness of Latin American financial instruments and stocks, financing could become more scarce.

- Before Mexico's crisis, the increase in real economic growth elsewhere in the region seemed likely to widea the current account deficit of the eight largest South American countries from \$18 billion to \$21 billion.
 Financial analyses had projected that direct and portfolio investments would have covered about three-fourths of this amount.
- Potential difficulties in raising foreign financing and concerns that larger trade deficits would heighten investors' worries could prompt some governments to retrench in order to curb import growth.

Lower-than-potential growth in Latin America would aggravate losses in US export revenues in Mexico.

- With a 25-percent drop in the real exchange rate against the dollar and a GDP growth rate likely to range between -0.5 and 1 percent this year, Mexico probably will import about \$10 billion less from the United Stites than if it had avoided a devaluation and grown by 4 percent.
- Beery 1 percentage point reduction in the GDP growth rate in the rest of Latin America would cause US exports to be about \$800 million lower than earlier projected.

Potential Problems Ahead for Bilateral Trade Relations and Free Trade : 146 Initiatives

The peso's plunge and the sharp contraction implied for Mexican real wages are littly to cause some displacement of Central American and Caribbean exports on the US market and create bilateral friction.

 A likely 25-percent increase in production by Mexico's assembly plants, together with gains in competitiveness, poses a significant threat to exports to the United States of assembled garments from countries in the Caribbean Basin.

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NOFORN NOCONTRACT

 Already worried about the implications of NAFTA for their clothing sectors, Caribbean and Central American leaders probably will step up pressure on Washington to give them the same access as Mexico to the US market.

The weakness of the Mexican peso also will work against regional integration efforts.

- Given Mexico's pressing domestic problems and its uncertain economic prospects, the Zedillo government may shift free trade negotiations with Nicaragua and Peru to the back burner.
- Although El Salvador, Honduras, and Guatemala probably will continue free trade talks with Mexico, the president of Guatemala's Central Bank says that he will recommend revising the strategy for negotiating tariff cuts in order to guard against widening Guatemala's trade deficit with Mexico.
- Costa Rica, Colombia, and Venezuela—which already have free trade agreements with Mexico—are likely to resort to safeguards to protect domestic manufacturers if there is a surge of Mexican imports. Some groducts still under negotiation in Colombia and Venezuela's free trade agreement with Mexico are virtually certain to remain excluded from the accord.

Progress toward forming a free trade area of the Americas (FTAA) probably will slow.

- Chile's Finance Minister has indicated publicly that he expects the timetable for free trade talks with Washington to slip because he believes Mexico's misfortunes will intensify debate on fast track in the US Congress.
- Although the benefits of the FTAA will remain a strong lure, Mexico's balance-of-payments crisis might cause some countries to reevaluate the timing for seeking NAFTA membership.

The situation could work to Brazil's advantage in making itself the hub of a South American free trade zone.

 The Zedillo administration's likely continuing preoccupation with its financial troubles may give room to President Cardoso to take the lead on regional trade issues, provided that Brazil does not experience any dramatic capital flight.

NOFORN NOCONTRACT

 Bitaits proposal to concentrate on integrating regional trade blocs and to link South America to NAFTA only after eight to 10 years may gain more appeal if Mexico is perceived as a much tougher competitor and if other countries worry about the impact of NAFTA membership on their trade deficits.

Potential Benefits for US Investors

Although the crisis may slow liberallization efforts in the next few months as other countries wait to see if the situation stabilizes, it could, on balance, have a positive effect on US investment opportunities over the medium term.

- The decreased availability and higher cost of foreign financing probably will spur privatization and initiatives to attract foreign partners in uperading infrastructure.
- Latin American governments' heightened awareness of the need for increased direct foreign investment rather than volatile portable investments could also help stimulate efforts to ease restrictions on investment and will provide an additional lever in gaining better protection for intellectual property rights.
- Been though the crisis may prompt tighter limits on portfolio investments and probably will cause foreign exchange controls in some countries to remain in place, it may provide an impetus to open financial services to foreign banks and to draw up designs for private pension plans to promote domestic savings.

Table 1 Current Account Balance

			8	Illion US \$
	1992	1993	1994 (8)	1995 (b)
Argentina	-6.6	-7.5	-11.1 -	5.6
Brazil	6.3	-0.7	-4.0	-11.0
Chile	-0.7	-21	-0.9	-1.3
Colombia	0.9	-2.2	-2.8	-3.0
Ecuador	-0.1	-0.4	-0.7	-0.7
Peru	-1.3	-1.7	-1.9	-1.9
Uruguay	-0.1	-0.3	-0.4	-0.4
Venezuela	-3.8	-2.2	4.1	3.0
Total	-5.4	-17.1	-17.7	-20.9

(a) Estimated (b) Projected

This table is Confidential Notorn.

Table 2 .		
Net Equity	Investment	Flows

BI		

	** *	1992	1993	1994 (8)	. 1995 (b)
Argentina		4.2	6.3	3.0	3.0
Brazil		3.0	4.5	8.1	8.2
Chile		0.7	1.2	1.2	1.4
Colombia		0.5	0.9	1.6	1.8
Ecuador		0.1	0.1	0.1	0.1
Peru		0.1	0.6	2.8	1,5
Venezuela		0.6	0.3	0.2	0.2
Total		9.3	13.9	17.Q	16.2

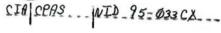
Note: Net equity flows include direct foreign investment and portfolio investment.

- (a) Estimated (b) Projected

Title:	NATIONAL INTELLIGENCE DAILY	
Abstract:		
Pages:	0003	
Pub Date:	2/10/1995	
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National Intelligence Daily

Friday, 10 February 1995









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Current Notes

AMERICAS

Mexico:

President Orders Rebel Leaders' Arrest

Mexican Federal Judicial Police have arrested eight Zapatista National Liberation Army (EZLN) leaders and, according to press reports, have mounted a manbunt for rebel leader Marcos. President Zedillo justified the moves in a televised address last night in which he revealed Marcos's true identity and the discovery in Mexico City and Veracruz of extensive arms caches and armed EZLN elements preparing for attacks.

— Zedillo stopped short of directing a military offensive but ordered increased patrolling in Chiapas; violence could quickly escalate, however, given the Zapaitsta rank-and-file militancy and ongoing land disputes between peasants and landowners.

Although Zedillo reiterated the government's commitment to resolving the conflict peacefully, the arrest of top insurgent leaders will create a vacuum in the EZLN leadership, seriously complicating future government efforts to renew peace talks. Zedillo has pledged to call a special session of Congress to report on the situation and to consider legislation that would

Already shaky financial markets almost certainly will react negatively to Zedillo's moves.

provide amnesty to rebels agreeing to turn in their weapons.



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Selected Items From the National Intelligence Daily

Friday, 10 February 1995









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Mexico: President Orders Rebel Leaders* Arrest	6
	Mexico: President Orders Rebel Leaders' Arrest



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Current Notes AMERICAS	×
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	— Zedillo stopped short of directing a military offensive but ordered increased patrolling in Chiapas; violence could quickly escalate, however, given the Zapatista rank-and-file militancy and ongoing land disputes between peasants and landowners.
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Keywords:	MEXICAN PRESIDENT/CARLOS SALINAS DE GORTARI/AMNESTY LEGISLATION/CHIAPAS 1-20 JAN 1994	
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Selected Items From the National Intelligence Daily

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Tuesday, 21 February 1995







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21 February 1995

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will survive if its leaders are n planned raids against rebel Il continue to obey Zedillo
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Developments

MEXICO:

Chiapas Impasse, Rate Hike

The Zapatista rebels are refusing to resume pe withdraw from former rebel territory, but Presi the government will stay put and will maintain The government also affirmed that arrest warr including Marcos, are still valid despite the or actions that might provoke new fighting.

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Guerrero, Michoacan	de Ocampo, and Veracruz-Llave also have
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More who demanded his resignation from the Natio according to press reports.

-	 The Commission, which both sides recognize as the sole mediation
	body, since last week has been calling on the military to return to its
	former positions outside the conflict area. The Catholic Church also
	has asked that Ruiz step down, but he is not likely to abandon his controversial mediation role as long as he retains the support of
	local indigenous communities.

The Bank of Mexico yesterday announced a hi of about 10 percentage points to increase capi peso, according to press reports. The peso clos 3.5 percent from its 5.75 close on Friday.

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Title:	NATIONAL INTELLIGENCE DAILY	
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National Intelligence Daily

Tuesday, 21 February 1995







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Developments

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Chiapas Impasse, Rate Hike

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including Marcos, are still valid despite the order last week to refrain from actions that might provoke new fighting.
The military believes the insurgency will survive if its leaders are given amnesty but is standing down on planned raids against rebel sites in Chiapas and in Puebla and will continue to obey Zedillo.
the states of Tabasco, Oaxaca, Guerrero, Michoacan de Ocampo, and Veracruz-Llave also have the potential for social and political unrest.
More than a dozen people were injured on Sunday in San Cristobal de Las Casas after a melee between the supporters of Bishop Ruiz and protesters who demanded his resignation from the National Mediation Commission, according to press reports.
— The Commission, which both sides recognize as the sole mediation body, since last week has been calling on the military to return to its former positions outside the conflict area. The Catholic Church also has asked that Ruiz step down, but he is not likely to abundon his controversial mediation role as long as he retains the support of local indigenous communities.
The Bank of Mexico yesterday announced a hike in short-term interest rates of about 10 percentage points to increase capital inflow and strengthen the peso, according to press reports. The peso closed at 5.56 per dollar, up 3.5 percent from its 5.75 close on Friday.



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CIACPAS NID 95-044CX



National Intelligence Daily

Friday, 24 February 1995









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24 February 1995

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	MEXICO: Plans for Rescue Package Funds	





Mexico: Chiapas Update

President Zedillo announced on Wednesday he is prepared to drop charges and offer amnesty for rebel leaders, including Marcos, if they agree to participate in peace talks.

The rebels accused the government yesterday of buying time to prepare for a decisive military offensive with false offers of peace negotiations, amid signs that the Army continues to take an aggressive posture.

press reports indicate that security forces were still searching for Zupatista leaders over the weekend.

 Government troops clashed with rebels in Nuevo Momon on Saturday and in La Grandez on Monday, according to press reports.

Topeccet

Plans for Rescue Pa	ckage Funds
foreign debt and to su Wednesday released a \$2 billion in tesobono	se funds from the rescue package to reduce short-term apport the banking system. The Finance Secretariat or a plan that calls for using part of the loan to repurchase as and to exchange another \$2 billion in tesobonos for frities. Tesobonos worth \$1.4 billion were offered for seals of the state of the seals of
	e plan probably is designed to give the commercial
banks breath term dollar-d	ing room by letting them substitute new medium- lenominated assets for lesobonos. Details of how the ents will function, however, probably are still being
	a press release, the Finance Secretariat intends to anding tesobonox from the current \$20 billion to yearend.
guarantees, a	llion in resobonos is to be paid off using US swaps and the rest is to be exchanged for treasury bills and a term government security.
	continues to help the commercial banks liquidate certificates of deposits.
from the Fund have r	drawings
outstanding I	tions reportedly account for two-thirds of the loan total, with Banca Serfin, Mexico's third-largest bank, carrying the largest balance.
Commercial	county carrying the rangest banance.
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Developments

MEXICO:

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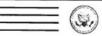
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National Intelligence Daily

Monday, 27 February 1995







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	MEXICO	: Congress To Deba	te Financial Pack	age, Amnesty	2

27 February 1995

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MEXICO:

Congress To Debate Financial Package, Amnesty

Del	essions, probably beginning on Thursday, bate on the financial package may prove has called the requirement that oil ason" and will lead the attack.
Finance Secretary Ortiz w some ruling-party in voting against the pack	legislators are likely to join the opposition
A congressional committee propos Zapatista National Liberation Arm	sal aimed at restarting peace talks with the ny (EZLN) also will be debated.
the EZLN would take place	ation of a "peace zone" where talks with ce, outlines a program for governing amnesty agreement that President Zedillo
Congressmen sponsoring of Government Secretary	the proposal claim they have the support Moctezuma and Chiapas mediator Ruiz,
national policy matters, and the le endorse the financial package eve	lly follows the president's wishes in arge ruling-party majority is likely to entually. Furthermore, the development iparty committee probably will help
If ruling-party hardliners new plan for governing C probably will object.	see the peace proposal, particularly the hiapas, overly lenient to rebels, they continued
2	Top Secret

exico: New Fis	cal Pressures
	Deficit spending this year is forcing Mexican officials to consider tougher measures to get a budget surplus as required by US and IMF financial assistance packages.
	 Generating a budget surplus is complicated by President Zedillo's edict against a new value-added tax and Labor Secretary Onate's strong opposition to further cuts in public spending.

Mexico: Monthly Trade Data, December 1993-January 1995

Monthly Trade Balance

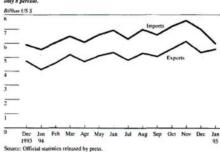
In January, Mexico's staggering trade deficit was reduced by nearly 70 percent from the previous month to about \$450 million.



-2.0 Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 1993 94

Imports and Exports by Month

Exports were up by 35 percent, as compared with January 1994, while imports increased by only 8 percent.



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Title:	SELECTED ITEMS FROM THE NATIONAL INTELLIGENCE DAILY	
Abstract:		
Pages:	0003	
Pub Date:	2/27/1995	
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Selected Items From the National Intelligence Daily

Monday, 27 February 1995







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	MEXICO: Congress To Debate Financial Package, Amnesty	2

Top Secret	*
MEXICO:	Congress To Debate Financial Package, Amnesty
	Both houses will meet in special sessions, probably beginning on Thursday, Debate on the financial package may prove contentious; the leftist opposition has called the requirement that oil revenues be used as collateral "treason" and will lead the attack.
	Finance Secretary Ortiz will be asked to appear, and some ruling-party legislators are likely to join the opposition in voting against the package.
	A congressional committee proposal aimed at restarting peace talks with the Zapatista National Liberation Army (EZLN) also will be debated.
	— The plan recommends creation of a "peace zone" where talks with the EZLN would take place, outlines a program for governing Chiapas, and includes an amnesty agreement that President Zedillo has suggested.
	Congressmen sponsoring the proposal claim they have the support of Government Secretary Moctezuma and Chiapas mediator Ruiz,
	The Mexican Congress historically follows the president's wishes in national policy matters, and the large ruling-party majority is likely to endorse the financial package eventually. Furthermore, the development of the Chiapas strategy by a multiparty committee probably will help smooth its passage.
	— If ruling-party hardliners see the peace proposal, particularly the new plan for governing Chiapas, overly lenient to rebets, they probably will object.
Trade Figures Encouraging	Meanwhile, Mexico's staggering trade deficit was reduced by nearly 70 percent from the previous month to about \$450 million in January. Compared with last January, exports were up by 35 percent while imports increased by only 8 percent.

Title:	MEXICAN, TWO AMERICANS KILLED IN GUATEMALA CRASH	
Abstract:		
Pages:	0001	
Pub Date:	4/7/1995	
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Office of Current Production and Analytic Support

News Bulletin

7 April 1995



Mexican, Two Americans Killed in Guatemala Crash

GUATEMALA CITY (AP) _ The bodies of a Mexican and two Americans, one reportedly a former CIA employee, were recovered Thursday from the site where their plane crashed in northern Gualemala.

Civil Aviation Director Julio Godoy identified the American victims as pilot Monte Charles Overacre of Twin Falls, Idaho, and Wayne Englenton, whose hometown was not immediately known. The Mexican was identified as Rigoberto Castro.

They apparently were on a job for an oil company.

Jose Arturo Merida, subdirector of civil aviation, said air traffic controllers lost the single-engine Cessna 182 at 5:30 p.m. Wednesday as it flew near heavy storms.

The plane was discovered Thursday in a mountainous area near San Miguel Chicaj, about 30 miles north of Guatemala City.

Sam Overacre said from Idaho that his son, 39, worked for the CIA for 10 years before retiring last year. He said Monte Overacre was on assignment for Crescent Oil Co. of California.

Overacre said his son, an experienced pilot, had mentioned doing covert flying in El Salvador but had never mentioned Guatemala during his time with the CIA.

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Title:	MEXICO: REFERENDUM KEY TO PROGRESS IN CHIAPAS	
Abstract:		
Pages:	0009	
Pub Date:	8/24/1995	
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Case Number:	F-2002-00730	
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Office of	African and Latin Americ	an Analysis	24 August 1995
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Mexico	: Referendum Key t	o Progress in Chiapa	as
referende into the p way the c	atista National Liberation um on Sunday to determi political arena. A "yes" questions are framed—wo rment prospects and prov	ine the level of public su votewhich we see as m uld enhance the group's	pport for its entrance ost likely, given the s confidence in its
		the EZLN's limite	d military wherewithal is
	steadily eroding, incre	asing the Zapatistas' inc	entive to cut a deal soon.
•		dorsement of a political by the rebels for concess	role for the group could ions on national-level
A thumb talks.	s down vote would reduc	e prospects for quick pro	gress in the peace
•	group's local sphere of	ogue aimed at finding a finfluence with disrupth	way to preserve the
attacks o	of that the EZLN would con civilian or military tary the likelihood that Mexic	gets, however, because si	uch action would
Talks at	a Stalemate		
differenc	nent and rebel representati es in peace negotiations the late July, major points of	nat began in April. When	ress in bridging their the fifth negotiating round

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Terms of the Referendum

The stalemate in talks between the rebels and the government has led many observers to look to Sunday's referendum to provide a breakthrough. The Civic Alliance, a nongovernmental organization, and the National Democratic Convention, a loose alliance of leftist political organizations associated with the EZLN, are organizing the vote at the rebels' request. Participants will be asked the following five questions posed by the Zapatistas:

- Should the EZLN become a new and independent political force?
- Should the EZLN unite with other forces and organizations to form a new political organization?
- Are you in agreement that the public demands of the Mexican people are land, life, work, nourishment, health, education, culture, information, independence, democracy, liberty, justice, and peace?
- Should the different democratic forces unite into one large opposition front and fight for the 13 aforementioned principal demands?
- Should the political system be reformed in a profound way in order to guarantee respect for the vote, reliable registration lists, and recognition of all political forces?

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٠	Military Goals.	Mexico City wants to keep the Army in the forward
	positions it has	occupied since the February campaign to isolate the rebels,
	while the EZLN	is set on securing withdrawal of government forces.

•	Scope of negotiations. The Zedillo administration is determined to confine
	a final settlement to local issues, while the EZLN wants concessions on
	national concerns that have become increasingly central to its agenda since
	the government has addressed many of the group's local demands.

	the government has	addressed m	any of the grou	p's local demands.	'
The two si	ides' sharply differen	t negotiating	tactics have har	npered progress.	
•	Government repress repeated rebel recess have little respect for	sses for consu	Itations:	essed frustration w	ith they
•	The rebels, for their seeking to speed th	e talks with the	hreats and bribe		
discussion commission the govern	ng direct talks with E ns can be held secretl on, which Mexico Ci Marcos responded ament subsequently to y to avoid the percep	y and without ty believes is positively to rejected his no	the Bishop Rui partial toward (an initial gover gotiators' publi	z-led mediating he rebels. Althou nment feeler on the c call for direct tal	gh e issue,
EZLN Di	isarray Impeding Se	ettlement			لـــــــ
		the EZLN is	diminishing as	a coherent force,	
narrowing	g the group's options.	The govern	ment's military	cordon-14,400 to	oops have
been main	ntained in the Chiapa				
	has compo	unded rebel d	difficulties in co	mmunicating and	obtaining
supplies.					
. 27					
-		e.			
1 On 15 May.	the Chispus state government p	rounigated as elect	oral law approved by al	political parties.	
Zeddle is expe on 1 September	retad to announce a comprehens	ive accial program fo	or Chaispea in hir state or	the union address	
	hen was prepared by contribution from		Office Of African and Comments and quest		

	By April,			the
	attention, short	tages of water and f	rebels and that illness, ood, and the stress of be veness and morale,	
•			added to disarray in reb raders for extended peri	
		desertions hav	e reduced rebel strength	to fewer than
			0 in February-and that	
demands support.	on the local popu	ulace for scarce foo	d and medical supplies	are costing it
Perhaps n	effecting the mil	itary squeeze, Zapa	tista leaders have not be	en able to work
out a cons			litary or negotiating stra	
		At least some rebel	factions are anxious for	
	t. In contrast,			two indigenous
			EZLN would prefer to	scuttle the talks
and conti	nue the armed re	bellion.		

Public Opinion Referendum Key

> Faced with declining leverage and confused over tactics, the rebels have focused on the referendum to assess popular sympathy for their cause and to try to rally support for their agenda. Although the nationwide vote probably will suffer from organizational difficulties and attract only limited public interest, it is likely to produce sufficiently positive results to allow the EZLN to claim acceptance of its goals and to justify its entry into the political arena. Arrangements for the vote-the public recognizes this is a Zapatista initiative, and the group's symbol will be on the ballotwill drive away moderate voters likely to register "no" votes. Moreover, the EZLN appears to have designed the questions to elicit a positive response. Results of two trial polls of Mexico City residents in mid-June suggest reaction will be generally positive.

- Eighty-two percent of 500 respondents to a poll carried out by a Mexico City daily approved the EZLN's list of principal demands. Forty-five percent said the EZLN should form a new political organization on its own, but another 29 percent said the Zapatistas should do so in conjunction with other groups.
- Ninety-five percent of 400 respondents to a survey carried out by a respected independent magazine registered approval for the political aims

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contained in the referendum.	Twenty-five percent said they	favor the
EZLN acting on its own to f	orm a new political organizatio	n, while 31
percent said the Zapatistas s	hould work with other forces.	

"Yes" Vote Could Presage End of Rebellion

We judge a "yes" vote would be	a net plus for peace talks by increasing rebel
confidence in the EZLN's postset	tlement prospects and by providing a face-saving
pretext for laying down arms. Po	sitive public reaction would strengthen rebel
moderates, perhaps tilting the bal	lance in favor of an agreement that ends the group's
20-month belligerent status.	

Although public endorsement of EZLN aims could spur the rebels to attempt a lastditch push for fulfillment of their national demands, we believe the group would settle for a compromise formula. It might include some of the following elements:

- Government agreement to recognize the EZLN as a legitimate political force and to provide amnesty to rebel cadre.
- · EZLN agreement to renounce violence and lay down its arms.
- An offer by Mexico City to formally consider rebel demands on national reforms, perhaps in the context of multiparty talks.
- Agreement on a package of political reforms for Chiapas that addresses indigenous concerns, possibly including changes in the state's Constitution and its judicial system.
- Rebel endorsement of government socio-economic development programs in Chiapas.

"No" Vote Would Hinder Talks

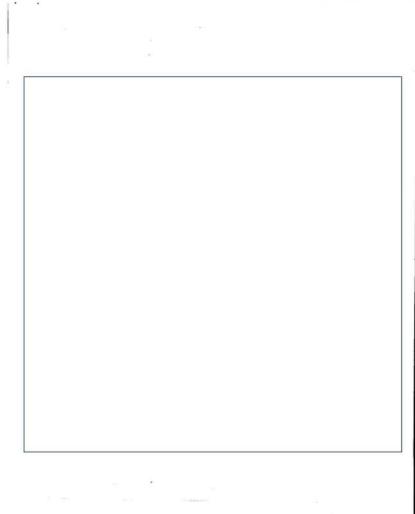
Lack of support for EZLN goals and entry into the political process would undercut Zapatista claims to a national support base, further marginalizing the group and sharply eroding prospects for an early settlement. Divisions that have slowed discussions would be likely to deepen, forcing the EZLN to reassess its options. In order to regain political momentum, we believe the Zapatistas would adopt a twotrack strategy marked by:

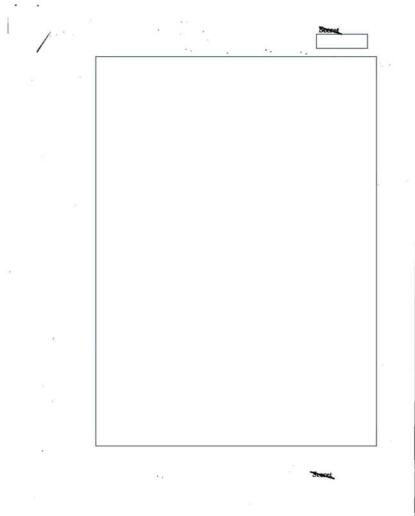
Renewed dialogue with the government aimed at finding a face-saving way
of preserving the group's local sphere of influence.

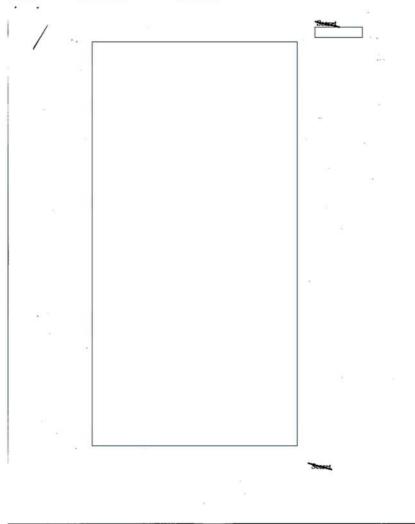
might use the 15 October local elections in Chiapas as an occasion to stage protests and engineer takeovers of public or private assets in support of EZLN demands. We judge it unlikely, however, that they would abandon talks altogether or attempt high-profile armed attacks on civilian or militar
targets that would almost certainly provoke a military crackdown.
Although the Zedillo administration almost certainly wants to avoid military action in
Chiapas, particularly until after 15 October,
tentative support to proposed military contingency plans to isolate
the rebels and apprehend their leaders if peace talks fail. By late July, preparations
were reportedly complete and troops were on alert to facilitate quick response to any
Zapatista actions. A prolonged rebel absence from talks or fruitless dialogue,
particularly if accompanied by escalating political violence and clashes over land, coul
persuade Mexico City that an Army crackdown would be less costly than a popular
persuade Mexico City that an Army crackdown would be less costly than a popular

perception that the government was not in command.

A more militant posture--short of coordinated military action--to generate rank-and-file enthusiasm and regain credibility. For example, the rebels







Title:	INFORMATION ON SAM GLANCANA
Abstract:	
Pagesi	0001
Pub Date:	2/16/1996
Release Date:	8/23/1999
Keywords:	INFORMATION[GIANCANA SAM][MMIGRATION]GOBERNACION
Case Number:	F-1998-00784
Copyright:	0
Release Decision:	PIPPUB
Classification:	U

SUBJECT: Information on Sam GIANCANA

for information that they might have on Sam GIANCANA. The Department of Immigration is under the Secretariat of Gobernación, so it was believed that they might have some information on GIANCANA. . never received a reply to this request. however, told that the Government of

Mexico (GOM) was expelling GIANCANA from the country, to the United States, within 24 hours.

In meetings

GIANCANA. The said that the local immigration authorities had been seeking GIANCANA because he was in the brought up the subject of country illegally. They finally located him in July, arrested him on the spot, and deported him the following day. The expulsion was not carried out on the basis of any specific information supplied by the US Embassy, nor were there any indications that he was engaged in any criminal activity here. Rather it was an internal GOM decision to expel an unwanted alien who was living illegally in Mexico.

CLASSIFIED BY SPO REASON: 1.5 DECLASSIFY ON: X

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Title:	NATIONAL INTELLIGENCE DAILY	
Abstract:		
Pages:	0003	
Pub Date:	5/7/1996	
Release Date:	12/8/2003	
Keywords:	MEXICAN PRESIDENT/CARLOS SALINAS DE GORTARI/AMNESTY LEGISLATION/CHIAPAS 1-20 JAN 1994	
Case Number:	F-2002-00730	
Copyright:	0	
Release Decision:	RIPPUB	
Classification:	U	



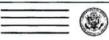


CTANCHES .. WID 96-107CL



National Intelligence Daily

Tuesday, 7 May 1996







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***** EYES ONLY *****

Top Secret

CPAS NID 95-0107CX 7 May 1996

uation Report		
	Mexico: EZLN Convictions Spell More Trouble for Talks	8

Top Secret

1)	
EZL	N Convictions Spell More Trouble for Talks
the se	ista National Liberation Army (EZLN) leader Marcos yesterday call ntencings by a Chiapas judge of two alleged EZLN members to sti terms "an act of war" and said the group will reconsider its ipation in peace talks with the government.
	— According to a press report, the convicted Zapatistas were amon some two dozen arrested during the government's offensive in February 1995; they were not eligible for an amnesty subsequently offered to rebels who remained at large.
	Attorney General Lozano says the judgments could be overturne suggesting Mexico City is looking for a legal formula to limit if fallout on talks. In a separate case last October, a Mexico City judge dismissed charges against an alleged rebel leader at the Attorney General's request, averting a potentially serious setbact to the peace process.

month, as scheduled. The sentencings, however, have added to rebel distrust of government intentions that has already slowed talks.

AMERICAS (continued)

Mexico:

Title:	SELECTED ITEMS FROM THE NATIONAL INTELLIGENCE DAILY	
Abstract:		
Pages:	0003	
Pub Date:	5/8/1996	
Release Date:	12/8/2003	
Keywords:	MEXICAN PRESIDENT/CARLOS SALINAS DE GORTARI/AMNESTY LEGISLATION/CHIAPAS 1-20 JAN 1994	
Case Number:	F-2002-00730	
Copyright:	0	
Release Decision:	RIPPUB	
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CAICLAS NIDC 96-108C



Selected Items From the National Intelligence Daily

Wednesday, 8 May 1996







Top Secret

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CPAS SIFTNID 96-108C 8 May 1996

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rmy (EZLN) rebels yesterday ounce prison sentences recent publicly threatened additiona al committee that is helping ng to broker a legal or politic judgments. Government is to have worn thin, however	ly al
fet warned the Zapatistas that w from peace talks would nul rest of EZLN leaders still at lar	lit

AMERICAS (continued) **EZLN Protests Try Government's Patie** Unarmed Zapatista National Liberation A briefly occupied two radio stations to deno given to two alleged EZLN members and takcovers. Press reports say a congression facilitate the Chiapas peace process is tryi formula for overturning the controversial tolerance for Zapatista posturing appears - Secretary of Government Chuayff carrying out their threat to withdra the amnesty law prohibiting the arr including rebel chief Marcos. Further EZLN high-profile protests may discourage Mexico City from appearing to yield to Zapatista pressure, and clashes between government troops and rebel demonstrators would increase the chances that peace talks will be delayed or suspended. - The militarily weak EZLN, however, will hesitate to withdraw formally from the talks and risk provoking more aggressive government action.

Mexico:

Title:	NATIONAL INTELLIGENCE DAILY
Abstract:	
Pagesi	0004
Pub Date:	8/7/1996
Release Date:	2/13/2002
Keywords:	COLOMBIA PERU PANAMA JERADICATION OF NARCOTIC PLANTS GUATEMALA AND MEXICO JHERBICIDE TESTING
Case Number:	F-2001-00992
Copyright:	0
Release Decision:	RIPPUB
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National Intelligence Daily

CIA CPAS -- WID 96-184CX ---

Wednesday, 7 August 1996







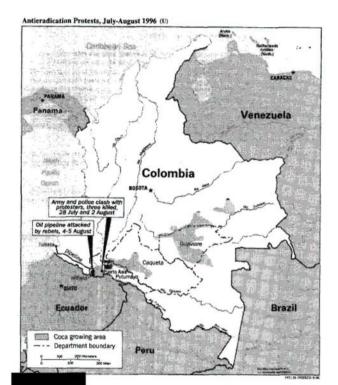
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CPAS NID 96-0184CX 7 August 1996

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Cotombia: Peasant Eradication Protests Spreading

10





INTERNATIONAL NARCOTICS (continued)

Colombia:

Peasant Eradication Protests Spreading

Peasant demonstrations, which began in mid-July in Guaviare Department, continue to interfere with Bogota's drug crop eradication program. Protests have spread to Putumayo and Caqueta Departments, and clashes with security forces have caused three deaths thus far.

 45,000 to 80,000 inhabitants of Putumayo make a living from coca cultivation or processing.

— Guerrillas, who also profit from the illicit crop industry, probably are fanning the demonstrations. Over the weekend, rebels blew up a stretch of oil pipeline in Putumayo, and press reports say peasant leaders are threatening to take over oil installations to force government concessions.

The government on Monday sent a delegation to talk with the peasants, but officials have ruled out legalization of coca and opium poppy,

President Samper has vowed to continue eradication—a criteria for US counternarcotics certification—and has asked farmers to abandon illicit cultivation.

— Samper last week announced the creation of a fund to provide credit to debt-ridden farmers, but it is unlikely to give protesting coca growers enough incentive to switch to legal crops. In the past, Bogota has failed to follow through on commitments to provide subsidies to grow alternative crops. The potential for sporadic violence remains high.



Title:	SENIOR EXECUTIVE INTELLIGENCE BRIEF	
Abstract:		
Pages:	0003	
Pub Date:	12/16/1998	
Release Date:	12/8/2003	
Keywords:	MEXICAN PRESIDENT/CARLOS SALINAS DE GORTARI/AMNESTY LEGISLATION/CHIAPAS 1-20 JAN 1994	
Case Number:	F-2002-00730	
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Wednesday, 16 December 1998

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Mexico: Government Wary of Renewed Chiapas Violence

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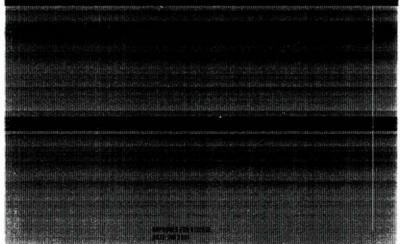
AMERICAS Mexico: Government Wary of Renewed Chiapas Violence Mexican authorities are concerned that the anniversaries of a peasant massacre by progovernment paramilitaries on 22 December or of the Zapatista revolt on 1 January will spark renewed hostilities, Violence could result from a provocative act by the Zapatistas or the Chiapas State government, - Alleged Zapatista supporters on Sunday ambushed government sympathizers in the conflict area, killing one and wounding several, according to Mexican press reports. Chiapas Governor Albores last week announced that paramilitary groups would be granted amnesty if they disarmed. Zapatista sympathizers, who have long accused Albores of casting a blind eye toward the paramilitary groups, have dismissed the latest pledge as insincere. The Zapatistas continue to send mixed signals on their intent to negotiate a peace settlement. Rebel leader Marcos last month publicly expressed his willingness to open talks and reach out to concerned congressional leaders. Other Zapatista spokesmen while meeting last month with congressional mediators, however, rebuffed an attempt by the Zedillo government to open direct negotiations. The Zapatistas will concentrate on soliciting the support of like-minded nongovernmental organizations and on maintaining their area of they may dangle the possibility

of peace talks to buy time until the election in 2000, when the more sympathetic opposition will have a chance to assume power.

Title:	[EST. PUB DATE] INTERNATIONAL CRIME THREAT ASSESSMENT
Abstract:	
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Keywords:	NARCOTICS (INTERNATIONAL CRIME
Case Number:	F-2001-00009
Copyright:	0
Release Decision:	RJFPUB
Classification:	U



International Crime Threat Assessment



December 2000

International Crime Threat Assessment

December 2000

This global assessment was prepared by a US Government interagency working group in support of and pursuant to the President's International Crime Control Strategy. Representatives from the Central Intelligence Agency; Federal Bureau of Investigation; Drug Enforcement Administration; US Customs Service; US Secret Service; Financial Crimes Enforcement Network; National Drug Intelligence Center; the Departments of State, the Treasury, Justice, and Transportation; the Office of National Drug Control Policy; and the National Security Council participated in the drafting of this assessment.

APPROVED FOR RELEASE DATE: JAN 2001

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International Crime Threat Assessment

Introduction

The rapid spread of international crime since the end of the Cold War is unprecedented in scale, facilitated by globalization and technological advances, and poses a significant challenge to the United States and democratic governments and free market economies around the world. The President has identified international crime as a direct and immediate threat to the national security of the United States. To meet this challenge, the Departments of Justice, State, and Treasury-working closely with numerous federal agencies-jointly developed a comprehensive national strategy to fight international crime and reduce its impact on Americans. The International Crime Control Strategy, which was released in May 1998, provides a dynamic action plan that serves as a roadmap for a coordinated, effective, long-term attack on international crime. The Strategy's eight overarching goals, supported by implementing objectives, are as follows:

- · Extend the first line of defense beyond US borders.
- Protect US borders by attacking smuggling and smuggling-related crimes.
- · Deny safehaven to international criminals.
- · Counter international financial crime.
- · Prevent criminal exploitation of international trade.
- · Respond to emerging international crime threats.
- · Foster international cooperation and the rule of law.
- · Optimize the full range of US efforts.

At the direction of the President and as part of the International Crime Control Strategy, a US Government interagency working group has prepared the following comprehensive assessment of the threat posed by international crime to Americans and their communities, US businesses and financial institutions, and global security and stability. The assessment is divided into five parts:

- Chapter I addresses the Global Context of International Crime, identifying those factors—including the implications of a changing world, the greater sophistication of criminal organizations, and institutional shortcomings elsewhere in the world—that have contributed to the growing problem of international crime.
- Chapter II provides a comprehensive overview of specific International Crimes Affecting US Interests—including their effect on American lives and livelihood, costs to US business interests at home and abroad, and impact on US national security interests around the world.
- Chapter III addresses Worldwide Areas of International Criminal Activity, particularly as source areas for specific crimes and bases of operations for international criminal organizations. This section includes an analysis of the driving factors in different countries and regions that allow criminal organizations and international criminal activity to flourish, as well as an assessment of the impact of international criminal activity on stability in these countries and regions, including threats to the growth and nutruting of democratic and free market systems. Finally, this section discusses the characteristics, criminal operations, and international presence of organized crime groups originating in these countries or regions.
- Chapter IV addresses the Consequences of International Crime for US Strategic Interests, including the ability to work cooperatively with foreign governments and the problem of criminal safehavens, kleptocracies, and failed states.
- Chapter V offers a perspective on the Future of International Crime as it develops in the next 10 years.

Chapter I

Global Context of International Crime

Implications of a Changing World

Law enforcement officials around the world have reported a significant increase in the range and scope of international criminal activity since the early 1990s. The level and severity of this activity and the accompanying growth in the power and influence of international criminal organizations have raised concerns among governments all over the world-particularly in Western democracies-about the threat criminals pose to governability and stability in many countries and to the global economy. International criminal networks have been quick to take advantage of the opportunities resulting from the revolutionary changes in world politics, business, technology, and communications that have strengthened democracy and free markets, brought the world's nations closer together, and given the United States unprecedented security and prosperity:

- Post-Cold War landscape. The end of the Cold Warresulted in the breakdown of political and economic barriers not only in Europe but also around the world. This change opened the way for substantially increased trade, movement of people, and capital flows between democracies and free market countries and the formerly closed societies and markets that had been controlled by Soviet power. The end of the Cold War also brought with it an end to superpower rivalry in other regions of the world, encouraging movement toward peace and more open borders. These developments have allowed international criminals to expand their networks and increase their cooperation in illicit activities and financial transactions.
- Economic and trade liberalization. Increasing economic interdependence has both promoted and benefited from reforms in many countries opening or liberalizing state-controlled economics with the intention of boosting trade and becoming more competitive in the global marketplace. Criminals have taken advantage of transitioning and more open economics to establish front companies and quasi-legitimate businesses that facilitate crust gling, money laundering, fifted that the control of the countries.

Multilateral economic agreements reducing trade barriers in North America, Europe, Asia, and other regions of the world have substantially increased the volume of international trade. In the United States, the volume of trade has doubled since 1994, according to the US Customs Service, and will double again by 2005. Criminal groups have taken advantage of the high volume of legitimate trade to smuggle drugs, arms, and other contraband across national boundaries.

The advent of intermodal commercial shipping—including standardized eargo containers, computerized cargo tracking, and automated cargo-transfer equipment—enables shippers to securely and efficiently transfer containers delivered by sea to other ships for onward shipment or to commercial railroads and trucks for overland transportation. Criminals are able to exploit the complexity of the intermodal system to hide drugs or other contraband to to conceal the true origin and ownership of cargo within which contraband is hidden.

· Technological advances. The last decade has presented revolutionary advances in information and communications technologies that have brought the world closer together. Modern telecommunications and information systems that underpin legitimate commercial activity in today's fast-paced global market are as easily used by criminal networks. Commercially available state-of-the-art communications equipment greatly facilitates international criminal transactions-including making deals and coordinating the large volume of illicit trade. In addition to the reliability and swiftness of the communications, this also affords criminals considerable security from law enforcement operations. According to US law enforcement agencies, many international crime groups and drug traffickers use a combination of pirated and encrypted cellular phones and bootleg or stolen phone cards that they replace after short periods of use.

Through the use of computers, international criminals have an unprecedented capability to obtain, process, and protect information and sidestep law enforcement investigations. They can use the interactive capabilities of advanced computers and telecommunications systems to plot marketing strategies for drugs and other illicit commodities, to find the most efficient routes and methods for smuggling and moving money in the financial system, and to create false trails for law enforcement or banking security. International criminals also take advantage of the speed and magnitude of financial transactions and the fact that there are few safeguards to prevent abuse of the system to move large amounts of money without scrutiny. More threateningly, some criminal organizations appear to be adept at using technology for counterintelligence purposes and for tracking law enforcement activities.

- · Globalization of business. The revolution in modern telecommunications and information systems and lowering of political and economic barriers that have so greatly quickened the pace, volume, and scope of international commerce are daily being exploited by criminal networks worldwide. International criminals are attracted to major global commercial and banking centers where they take advantage of gateway seaports and airports, the high volume of international trade, the concentration of modern telecommunications and information systems, and the presence of major financial institutions. They count on avoiding close scrutiny of their activities because of the importance to businesses and governments of facilitating commercial and financial transactions and rapid transshipment of products.
- Explosion in international travel. With the breaking down of international political and economic barriers and the globalization of business, there is more freedom of movement, and international transportation of goods and services is easier. The proliferation of air transportation connections and easing of immigration and visa restrictions in many countries to promote international commerce, especially within regional trade blocs, have also facilitated criminal activity. In the past, more limited travel options between countries and more stringent border checks made crossing antional boundaries

difficult for international criminals. Now, criminals have a great many choices of travel routes and can arrange itineraries to minimize risk. Border controls within many regional economic blocs—such as the European Union—are often nonexistent.

In 1999, some 395 million people entered the United States overland from Mexico and Canada, 76 million people arrived on more than 928,000 commercial airline and private flights, and 9 million arrived by sea, according to the US Customs Service. In addition, 135 million vehicles-including automobiles and commercial trucks-crossed US borders with Mexico and Canada, and more than 200,000 merchant and passenger ships and other maritime vessels docked at US seaports or US coastal harbors. US seaports handled more than 4.4 million shipping containers and 400 million tons of cargo in 1999. US Customs is able to inspect only about 3 percent of the goods entering the United States, a figure that will drop to about 1 percent in the next five years as the volume of trade continues to grow. This tremendous volume of traffic and trade into the United States provides international criminals tremendous opportunity to smuggle contraband-including drugs and counterfeit products-into the country, as well as to illegally export firearms, stolen vehicles, and other contraband overseas.

Growing Global Reach of Organized Crime Groups

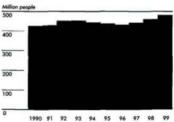
The phenomenon of international organized crime is not new. Italian, Chinese, and Nigerian criminal groups, for example, have long had members or cells in foreign countries and international connections to obtain, distribute, or market contraband. In general, however, their international criminal activities were more limited in scope, and their foreign cells operated mostly autonomously or performed a few specific functions for the larger group. Border controls, the slower pace of transportation and communication, and the requirement to move tilicit money in bulk cash



Total Persons Entering the United States, 1990-99







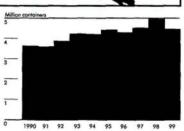
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There has been a 23percent increase in the number of commercial maritime containers entering US seaports since 1990.

Data for fiscal years, provided by US Customs Service.



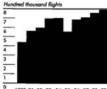


International Commercial Flights and Persons Entering the United States by Rir Transport, 1990-99



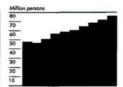
International Commercial Flights Entering the United States, 1990-99





⁹ 1990 91 92 93 94 95 96 97 98 99 There has been an 80-percent increase in the number of commercial flights entering the United States since 1990.

Persons Entering the United States by Air Transport, 1990-99



1990 91 92 93 94 95 96 97 98 99 The number of persons entering the United States by air has increased by 59 percent since 1990 and by 34 percent since 1993.

DATE: JAN 2001

General Characteristics Common to Organized Crime Groups

Organized crime is defined by US law enforcement as a "continuing and self-perpetuating criminal conspiracy, having an organized structure, fed by fear and corruption, and motivated by greed." Organized crime groups often have a family or ethnic base, but members usually identify more closely with the organization than they do with blood relatives. They typically maintain their position through the threat or use of violence, corruption of public officials, graft, or extortion. The widespread political, economic, social, and technological changes occurring within the world have allowed organized crime groups to become increasingly active worldwide. The ability of organized crime groups to adapt to these changes and their use of improved transportation and communication technology have hindered law enforcement efforts against them.

Most organized crime groups have the following characteristics in common:

- Seeking financial gain. A business must profit to survive, and organized crime functions in much the same way. Greed and the quest for profits probably dictate more organized crime decisions than any other single motive. It is this consuming desire for money, and the power that typically goes with it, which drives and sustains organized crime.
- Requiring member loyalty through ethnicity and family considerations. Although not an absolute mandate for every organized crime group, most groups require their members to be of the same ethnic background. The purpose of this preference is

twofold. First, criminals generally believe they can better trust those people they know, or know of, thereby reducing the likelihood of law enforcement infiltrating the group. Second, some of these groups originated from the pursuit of a common goal or scheme, whether economic, societal, or political.

- Pursuing corruption of government officials. Most organized crime groups have been enormously successful in their illegal ventures because they have successfully corrupted those persons charged with investigating and prosecuting them. In fact, some of these groups have so thoroughly and utterly corrupted those officials that it is no longer possible to distinguish between the two.
- Hierarchical structure. Generally, organized crime groups maintain a structure with defined leadershipsubordinate roles, through which the group's objectives are achieved.
- Criminal diversity. Typically, organized crime groups engage in more than one type of crime.
- Organizational maturity. In most cases organized crime groups have some permanence and do not depend on the continuing participation of one or a few individuals for their existence.
- Multijurisdictional activities. Usually, organized crime groups operate or have influence over large areas of a region, country, or countries.

were significant impediments to international criminal activity. For many organized crime groups, their international criminal activities were more regional than global. For those with a more worldwide presence, their operations were mostly confined to countries with a large ethnic expatriate population. The dynamics of globalization, however, particularly the reduction of barriers to movement of people, goods, and financial transactions across borders, have enabled international organized crime groups to expand both their global reach and criminal business interests. International organized crime groups are able to operate increasingly outside traditional parameters, take quick advantage of new opportunities, and move more readily into new geographic areas. The major international organized crime groups have become more global in their operations, while many smaller and more local crime groups have expanded beyond their country's borders to become regional crime threats.

Since the end of the Cold War, organized crime groups from Russia, China, Italy, Nigeria, and Japan have increased their international presence and worldwide networks or have become involved in more transnational criminal activities. Most of the world's major international organized crime groups are present in the United States.

Greater Sophistication of Criminal Organizations

International criminal networks-including traditional organized crime groups and drug-trafficking organizations-have taken advantage of the dramatic changes in technology, world politics, and the global economy to become more sophisticated and flexible in their operations. They have extensive worldwide networks and infrastructure to support their criminal operations; they are inherently flexible in their operations, adapting quickly to challenges from rivals and from law enforcement; they have tremendous financial resources to draw upon; and they are completely ruthless. International criminals spare no expense to corrupt government and law enforcement officials in foreign countries that serve as their bases of operation or as critical avenues for transshipment of drugs, arms, other contraband, illegal aliens, or trafficked women and children. Organized crime groups routinely resort to violence to advance and protect their interests.

Organized crime groups remain ruthless in protecting their interests from rivals and law enforcement alike. Criminal violence—contract killings, vendetta murders, kidnappings, bondage, even occasional small-scale massacres—ans increased with competition for illicit markets and resources, and it often has spilled over into society at large.

Globalization has bred a more professional criminal element. International criminals make use of the latest commercial and technological developments to expand and improve the efficiency of their operations, and they have the financial resources to obtain whatever access, know-how, and technology they may need or desire. Many criminal groups employ individuals with specific expertise to faciliste their operations. As a result, they are able to quickly identify and adapt to market changes.

- Major drug smuggling and other international criminal groups use transportation specialists and legal experts to research commercial flows and to learn about tariff laws and administrative procedures in the world's major commercial ports. With such information, they are able to exploit international air, sea, and land shipping to move drugs, arms, other contraband, illegal aliens, and even money past customs and law enforcement.
- International criminal organizations use financial experts (some trained in the world's best business schools) to identify new money-laundering mechanisms, to manage investments, and to establish fronts that can be used as covers for smugging and fraud schemes. This has allowed criminal groups to increasingly diversify their financial operations on a global scale.
- Legal expertise is effectively used by international criminals to protect themselves from investigations and prosecutions. Lawyers in their pay have used detailed knowledge of the law to manipulate the judicial system and to influence law enforcement legislation to protect criminal interests in countries around the world.

Globalization has enabled organized crime groups to diversify their criminal activities. Colombian drugtrafficking organizations, for example, are also involved in counterfeiting; Nigerian and Asian crime groups engage in alien smuggling; Russian and Asian crime groups traffic women for worldwide sex industries; and Russian, Asian, Nigerian, and Italian crimal syndicates engage in sophisticated, high-tech

APPROVED FOR RELEASE DATE: JAN 2001 financial crimes. Many of the larger criminal organizations have established business-like structures to facilitate and provide cover for their operations, including front companies, quasi-legitimate businesses, and investments in fully legitimate firms.

Much more than in the past, criminal organizations are networking and cooperating with one another, enabling them to merge expertise and to broaden the scope of their activities. Rather than treat each other as rivals, many criminal organizations are sharing information, services, resources, and market access according to the principle of comparative advantage. By doing so, they can reduce their risks and costs and are better able to exploit illicit criminal opportunities. Although most cooperation between criminal organizations so far has been largely tactical-such as collaborating in smuggling ventures, arranging illicit financial transactions, or laundering money-the potential for broader alliances to undertake more complex criminal schemes in an increasingly global economy is significant. The willingness and capability of large, well-established international organized crime groups to move into new areas and develop mutually beneficial relationships with local criminal groups is unprecedented.

Insurgency and Extremist Group Involvement in Organized Crime Activities

One of the more significant developments since the end of the Cold War has been the growing involvement of insurgent, paramilitary, and extremist groups-whose crimes are primarily against the state-in criminal activities more associated with traditional organized crime groups and drug-trafficking syndicates. Although various insurgent and extremist groups had been involved in traditional criminal activities before, particularly the drug trade, their role typically was more a subsidiary one of extorting or offering protection to drug trafficking and crime groups operating in areas they controlled. Partnerships that some of these insurgent or extremist groups had with drug traffickers and other criminal organizations were often fleeting, but sometimes longer-standing symbiotic arrangements based on a coincidence of interests. In either case, the relationship was often strained and marked by mutual suspicion and wariness. For example:

- In Peru from the late 1980s until the early 1990s, the extremist Sendero Luminoso insurgents profited from protecting coca fields and extorting drug traffickers operating in the Andean region they controlled.
- In Western Europe, members of the terrorist Kurdistan Workers' Party (PKK) in Turkey have engaged in drug trafficking and other crimes to help finance local operations.

Among the changes brought by the end of the Cold War, however, was the loss of Soviet, Cuban, and other Communist benefactors for many regional insurgencies and extremist groups. Unable to rely on aid from state sponsors, many insurgent and extremist groups were forced to find alternative sources of funds to remain militarily relevant, and involvement in drug trafficking and other crimical activity became a priority as an independent source of revenue.

- In Colombia, since the late 1980s, Marxist insurgents have not been able to rely on financial support from Cuba and Russia. Some insurgent fronts of the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) generate substantial revenue by taxing and protecting coca cultivation, cocaine processing, and drug shipments in the areas they control. The US Government estimates that the FARC may earn as much as half of its revenue from involvement in the Colombian drug trade.
- In Africa, both the National Union for the Total Independance of Angola (UNITA) in Angola and the Revolutionary United Front (RUF) in Sierra Leone raise most of the revenue to pay the costs of their insurgencies from mining and illegally exporting diamonds in the areas their forces control. For UNITA, exploiting the diamond industry became critical to its survival once Cuban and more limited Soviet aid dried up by the early 1990s. The RUF's principal external supporter, neighboring Liberia, receives payment in diamonds as the price for its troop, logistics, and material support.

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Besides engaging in drug trafficking and other criminal activity to raise needed revenue, insurgent and extremist groups have other motivations for involvement. Among the most important is to advance their political objectives by isolating the regions they control from the national economy. By so doing, they deprive the government of the region's economic productivity-as is most notably the case with the diamond mines held by the insurgents in Angola and Sierra Leone-and increase the dependence of the local population on their control and authority. In some cases-such as in the drug-producing regions of Colombia, largely controlled by the FARC and rightwing paramilitary forces-insurgent and extremist groups support a widespread illegal economy or illicit activity that is the primary source of income for the local population.

With the substantial decline in state-sponsored support, many insurgencies and extremist groups reach out to criminal networks to acquire arms and supplies that cannot be obtained through more traditional or legitimate channels. Unlike insurgent groups, criminal groups are well-connected to outside gray arms merchants, transportation coordinators, money launderers. and other specialists who can provide the weapons and other logistics support once given by state sponsors. Organized crime groups are also more likely than armed illegal political, ideological, or religious movements to have stables of corrupt contacts in customs. immigration, and other law enforcement authorities to facilitate the smuggling of weapons and other contraband to extremist and insurgent groups. Armed groups are also turning to criminals to acquire high-technology items, like encryption software or global positioning equipment, that are otherwise unobtainable.

For some insurgent groups involved in criminal activity, the activity inself may eventually become their primary motivation. In Burma, for example, ethnic-based insurgent armies that were originally formed as national liberation movements supported by Communist China have become drug-trafficking armies. Particularly since Burma's military regime negotiated cease-fire agreements that leave them alone, insurgent armies like the United Wa State Army—the largest producer of heroin and methamphetamine in Southessat Asia—are now engaged almost exclusively in the

lucrative business of drug trafficking. They turned increasingly to drug trafficking when China began substantially reducing its support in the 1970s.

Corruption and the Political-Criminal Nexus

While organized crime groups and other criminal networks have become more sophisticated in their operations and capabilities, corruption remains an indispensable tool of the criminal trade. Corruption is inherent to criminal activity; criminal groups corrupt society, business, law enforcement, and government. Beyond corrupting mid- and low-level law enforcement personnel and government bureaucrats to turn a blind eye or proactively facilitate their on-site criminal activities, crime groups seek to corrupt high-level polticians and government officials for a variety of reasons, including to:

- Gain high-level protection for themselves and their activities. Implicit alliances with senior officials in a position to head off or limit policy or law enforcement initiatives that could interfere with their criminal activities allow crime groups to operate in a relatively benign environment. In some circumstances, the relative power of their high-level political protectors may be the most important factor in how well or poorly a criminal group prospers.
- Gain insider information on national-level law enforcement investigations. Access to senior officials in a position to authorize or influence investigations and prosecutions provides major crime figures with warning of governments' attempts to target them, the potential to learn about the sources and direction of investigations, and the possibility to terminate or sidetrack investigations or to target a rival criminal group instead.
- Gain insider information on national economic planning. Unsavory businessmen and many organized crime groups seek to invest in productive

business enterprises and to profit from economic and infrastructure development projects, both to use as fronts for their criminal operations and to legitimize their income and their role in society. Having advanced knowledge of government plans for privatization offerings or competitive bidding for development projects, for example, gives them a potential advantage over individuals and businesses without criminal ties. In many cases, criminal groups try to use their high-level official connections to ensure they win competitive bids.

 Influence legislation or statutory regulations that could affect their interests. High-level politicians in league with crime figures could sidetack or weaken provisions in key legislation that would threaten their safety, such as extradition, or push for laws that would promote their interests—such as their ability to launder money, make illicit financial transactions, engage in illegal trade practices, or move contraband products.

Criminal groups are most successful in corrupting high-level politicians and government officials in countries that are their home base of operations. Countries with policies that favor government subsidies and foreign trade restrictions to protect domestic industries, foreign exchange controls, and state control of utilities and natural resources are particularly vulnerable to high-level corruption. Senior officials who have authority to grant import or export permits, fix import and export duties, determine preferential exchange rates, decide on government-let contracts or privatization offerings, or waive internal taxes are routinely targeted by criminal groups or may themselves seek out a relationship with criminal interests. Highlevel politicians and government officials enter into corrupt alliances with criminal groups to:

- Avoid pressure and reprisals from criminal groups demanding favors. Politicians and officials who doubt the willingness or capability of their government to protect them from criminal threats are most vulnerable to the combination of lucrative bribe offers and intimidation.
- Use their public position or potential leverage for financial payoffs from criminal groups. Officials lower in a position to decide or influence law enforcement operations or investigations may demand bribes FOR RELEASE.

either to preclude government interference in the activities of criminal groups or to help facilitate their operations.

- Exploit their public authority for personal profit from illicit activities. High-level politicians and officials profit by using their ability to influence government economic decisions on behalf of criminal interests. For example, they may accept financial kickbacks for awarding contracts to business enterprises controlled or influenced by crime figures.
- Gain personal or political favors from criminal associations. In some cases, sentior politicians and officials seek criminal associations to obtain funds or assets that they can personally use for legitimate investments or for their own involvement in quasilegitimate or illicit profitable business activities.
 Criminal associations can also help them to launder and hide illicit proceeds gamered through abuse of their positions of authority. In other cases, they rely on criminal groups for information that can discredit political or bureaucratic rivals or to provide underthe-table campaign financing.

Corruption on a grand scale weakens social, political, and legal institutions and acts as a catalyst for further criminal activity—inctoding drug and contraband smuggling, illegal migration, and the penetration of criminal groups into the legitimate economy. This is particularly true in countries that are making the difficult transition to market economies, where widespread corruption degrades their ability to enforce the rule of law.

In addition to undermining the political legitimacy of the government, the consequences of corruption can be severe for a country's economic performance. Corruption reduces incentives for investment because businessmen perceive whatever portion of an investment is claimed by corrupt officials as a tax. Corruption disrupts the productive allocation of talent and labor in society and distorts the composition of fiscal expenditure, since corrupt officials make key economic decisions that are often based on their own personal best interests, rather than those of the country. High levels of corruption are also associated with lower-quality public infrastructure projects and services, because productive expenditures are cut to

A Global Forum on Fighting Corruption: Safeguarding Integrity among Justice and Security Officials

In February 1999, the United States hosted the first global forum to fight corruption among government officials responsible for upholding the rule of law. Officials from 90 countries participated and agreed on a declaration that calls on governments to adopt effective practices to promote integrity and fight corruption among justice, security, and other public officials and to assist each other in this regard through mutual evaluation. As a result of this initiative, several nations-such as Romania and South Africa-convened their own regional conferences in the past year to continue the work on a more local level. The Netherlands, with help from the United States, will host a follow-up global forum at the Hague in May 2001. The Dutch anticipate officials from 135-to-140 countries will attend.

offset costly kickbacks or the firms involved are inefficient or incompetent. Finally, in countries that are recipients of foreign assistance, the diversion of foreign aid flows from their intended projects by corrupt officials reduces the effectiveness of international donor efforts.

 As a result of foreign aid diversion, many donor countries have focused increasingly on issues of good governance. In some cases where corruption has significantly eroded the ability of the recipient country to use the aid as intended, international donors have scaled back their assistance.

Institutional Shortcomings

The growth and spread of international crime have also fed off the many institutional shortcomings of countries around the world. Police and judicial systems in many countries are ill-prepared to combat sophisticated criminal organizations because they lack adequate resources, have limited investigative authorities, or are plagued by corruption. Many countries have outdated or nonexistent laws to address corruption, money laundering, financial and high-tech

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crimes, intellectual property piracy, corrupt business practices, or immigration. Moreover, many governments have been slow to recognize the threat posed by criminal activities and increasingly powerful organized crime groups. Criminals use these shortcomings—and their tremendous resources to corrupt and intimidate public officials and business leaders—to find safehavens for themselves, their illicit operations, and their tainted money.

 Countries that do not allow or limit extradition or mutual legal assistance, do not recognize the relevance of some US laws, or that have no legal statutes to deal with some criminal activities are often ideal sanctuaries for criminals seeking to evade justice in the United States.

The resourcefulness of organized crime groups worldwide in acquiring sophisticated technology is posing unprecedented challenges for law enforcement and security forces. Many law enforcement agencies in world regions hard hit by criminal activity are poorly funded and equipped and are increasingly outmaneuvered by crime syndicates using state-of-the-art technology. Technological sophistication gives crime groups more options to target or retaliate against the police, judicial, or government officials if law enforcement pressure becomes too threatening to their operations.

 Law enforcement and security agencies increasingly may need to treat the security apparatus of sophisticated international criminal organizations the same as hostile intelligence services.

Finally, while globalization has allowed international criminals to operate virtually without regard to borders, governments and law enforcement agencies remain limited by national boundaries. National sovereignty concerns and jurisdictional restrictions are impediments to targeting criminal activities that cross international boundaries. Unlike criminals, governments and law enforcement agencies must respect other nations' sovereignty and legal statutes in law enforcement operations.



International Crimes Affecting US Interests



This graphic depiction of how international crimes affect US interests should not be interpreted as suggesting any level of threat magnitude; crimes intersecting all three circles of threats to US interests are not necessarily a greater threat than those intersecting two or only one.

Chapter II

International Crimes Affecting US Interests

The threat to the United States from international crime continues to grow as criminals exploit the globalization of trade and finance and rapid changes in technology. These developments have helped create new mechanisms for trafficking contraband, conducting illicit trade, laundering money, and engaging in large-scale economic crimes. They have also opened the door to new criminal opportunities. While organized crime groups have greatly benefited from these developments, the pace of globalization and technological advancements also have inadvertently resulted in some legitimate businesses becoming engaged in economic criminal activity.

The President's International Crime Control Strategy states that international crime threatens vital US interests in three broad, interrelated categories:

- Threats to Americans and their communities, which affect the lives, livelihood, and social welfare of US citizens living in the United States and abroad.
- Threats to American businesses and financial institutions, which affect US trade, the competitiveness of US products, and the US interest in a stable worldwide financial system.
- Threats to global security and stability, which
 affect the broader US national security interest in
 promoting regional peace and democratic and free
 market systems, particularly in regions where outlaw regimes aspire to develop weapons of mass
 destruction or where US forces may be deployed.

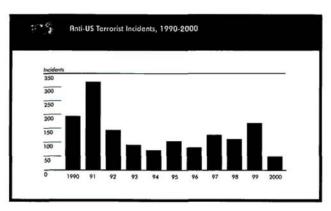
This chapter addresses the major international crimes identified as a threat to US interests in the International Crime Control Strategy, including their impact and costs to American citizens, businesses, or national security interests. This survey does not address them in any priority order indicating severity of threat to US interests.

 International terrorism and drug trafficking most directly threaten American liver property for trafficese DATE IAN 2001 international crimes are addressed in greater detail in the State Department's annual Patterns of Global Terrorism and International Narcotics Control Strategy Reports and the administration's annual National Drug Control Stratesy.

- Illegal immigration, worldwide trafficking of women and children, and environmental crimes may pose direct threats to safety, health, stability, values, and other interests of American communities—as well as to the entire world community of which the United States is a leading member.
- The illicit transfer or trafficking of products across international borders—including the violation of US or international sanctions, illicit transfer and smuggling of materials for weapons of mass destruction, arms trafficking, and trafficking in diamonds and other precious gems—undermines US national security objectives of isolating pariah regimes and promoting regional stability.
- Economic trade crimes such as piracy, the smuggling of contraband, the violation of intellectual
 property rights (IPR) through product piracy and
 counterfeiting, industrial theft and economic espionage, and foreign corrupt business practices rob US
 companies of substantial commercial revenues and
 affect their competitiveness in world markets.
- Financial crimes such as counterfeiting US currency and other monetary instruments, sophisticated fraud schemes directed at both individuals and businesses, high-tech computer crimes targeting businesses and financial institutions, and money laundering cause significant financial losses to American citizens and companies at home and overseas and contribute to instability in the international financial system.

Terrorism

Many international terrorist groups continue to see US interests as prime targets. Terrorists continue to demonstrate their operational ability to strike at a broad



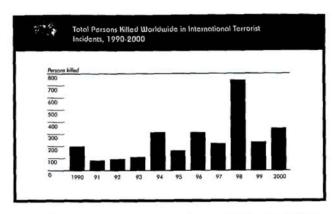
array of targets using both crude and sophisticated methods. The 1993 World Trade Center bombing in New York City; the 1995 and 1996 bombings in Saudi Arabia; the 1997 massacre of Western tourists in Luxor, Egypt; the 1998 bombings of US Embassies in Kenya and Tanzania; and the October 2000 suicide attack on the USS Cole in Yemen highlight the international terrorist threat posed to American lives and property, at home and abroad.

 In 1999, there were 169 terrorist attacks against US targets worldwide, a 52 percent increase from 1998, when there were 111 anti-US terrorist attacks including the bombing of US Embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania.

The terrorist threat to US citizens and national security interests comes principally from organized groups with political, ethnic, or religious agendas in their countries, state sponsors of terrorist organizations, and transnational groups with broader goals.

Traditional, established terrorist organizations—some backed by state sponsors such as Iran, Iraq, Syria, Libya, Sudan, North Korea, and Cuba—remain a dangerous threat. Iran, which still considers terrorism a legitimate foreign policy tool, maintains a terrorist infrastructure and ties to Islamic extremists and Palestinian groups that give it a worldwide terrorist capability.

Islamic terrorist groups with vague international agendas have become a growing threat in recent years. These groups are sometimes loosely organized, draw their membership from communities in several different countries, and obtain support from an informal international network of like-minded extremists rather than from state sponsors of terrorism. Many of these terrorists met while fighting against the Soviets in Afghanistan or have since received military and explosives training there.



- The group led by Ramzi Yousef, the convicted mastermind of the World Trade Center bombing, and the network maintained by Afghanistan-based terrorist Usama Bin Laden are prime examples of this evolution in the international terrorist threat.
- Algerian national Ahmed Ressam, who was arrested in Port Angeles, Washington, attempting to smuggle bombmaking material into the United States from Canada, was associated with an extremist group based in Algeria that has ties to Bin Ladin's organization.

The international political and economic changes that drug-trafficking and organized crime groups are exploiting to facilitate their activities are enhancing the ability of terrorist groups to operate worldwide. International terrorist groups are particularly adept at exploiting the advantages of more open borders and the globalization of international commerce to move people, money, and material across national borders. Like drug trafficking and other criminal organizations,

terrorist groups are becoming more sophisticated in the use of computer technology that enhances their communications and logistic networks.

Although terrorist groups and criminal organizations have similar requirements for moving people, money, and material across international borders, traditionally there has been minimal cooperation between them. Terrorist groups maintain their own clandestine networks and typically control all aspects of their operations to minimize the risk of exposure. There is the potential, however, for cooperation between transnational terrorist groups and criminal organizations.

- Some terrorist groups that lack a single state sponsor may use criminal activities to help finance their operations.
- Some terrorist groups look to organized crime groups to assist them in acquiring more sophisticated weapons or materials.

Drug Trafficking

The worldwide illicit drug industry is one of the greatest threats to social stability and welfare in the United States. In addition to the terrible human cost of addiction and associated health concerns—including HIV and AIDS—endured by users of illicit narcotics, drug abuse has a significant impact on the social fabric that affects all Americans. Drug abuse undermines family cohesion and has a terrible daily and often lifelong effect on the lives of children across the country.

- Results from the most recent National Household Survey on Drug Abuse indicated that 14.8 million Americans—about 6.7 percent of the population 12 years or older—were current users of illicit drugs, having used them within the previous 30 days.
- In 1999, according to a study sponsored by the Office of National Drug Control Policy (ONDCP), there were about 3.3 million hard-core users of cocaine and 977,000 hard-core heroin users in the United States.
- ONDCP estimates there were \$2,600 drug-related deaths in 1995, including 14,200 who died directly from drug consumption. This was the only year for which this estimate, derived from a methodology that incorporates deaths from other drug-related causes, was made.
- Medical examiners from 42 metropolitan areas in the United States reported more than 10,000 direct drug abuse deaths in 1998, the latest year for which figures are available, according to a survey conducted by the Drug Abuse Warning Network.
- Drug-related causes accounted for about 33 percent of new AIDS cases for men and 42 percent of new AIDS cases for women in the United States in 1998, according to data from the Centers of Disease Control and Prevention.

The economic costs of drug abuse to US citizens and society are substantial. These include significant personal spending of disposable income on illegal drugs; costs associated with medical care and drug rehabilitation programs for drug abusers; lost productivity in the workplace; and spending required by federal, state, and local law enforcement agencies and judicial and

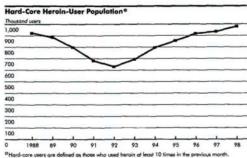
- In 1999, Americans spent \$63 billion on illegal drugs, according to a study sponsored by ONDCP.
- The estimated total costs of drug abuse in the United States—including health care and lost productivity—were \$110 billion in 1995, the latest year for which data are available, according to the US National Institute for Drug Abuse (NIDA). Nearly \$12 billion of that was for health-care costs and medical consequences.
- US Department of Labor studies have shown that drug users are less dependable than other workers; they are twice as likely as nonusers to take unexcused absences from work, are nearly twice as likely to switch jobs, and are more than three times as likely to be terminated.
- More than 8.3 million Americans in the work force age 18 and older used illicit drugs in 1998, according to the National Household Survey on Drug Abuse; 6.4 percent of full-time workers and 7.4 percent of part-time workers reported current illicit use in the survey.
- Drug use is estimated to cost \$77 billion a year in decreased productivity and lost earnings in the United States, according to a 1998 report by NIDA.

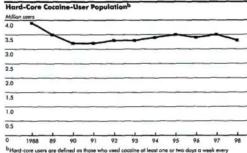
Drug abuse also leads to antisocial behavior and promotes disrespect for laws and institutions. The drug trade brings with it high levels of street crime and violence by addicts needing to pay for drugs and by drug groups fighting for turf. There is a strong correlation between drug abuse and crime.

- More than two-thirds of the adult males arrested for crimes tested positive for at least one drug in 1998, according to the Arrestee Drug Abuse Monitoring Program sponsored by the National Institute of Justice.
- In 1995, the latest year for which data are available, almost 225,000 people were incarcerated in state prisons and nearly 52,000 in federal prisons for drug offenses. About 60 percent of the federal prison population was incarcerated for drug-related crimes.



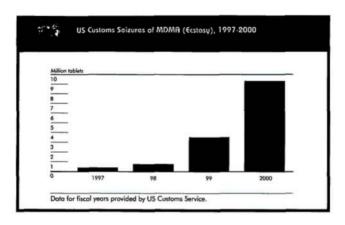
Estimated US Hard-Core User Population for Heroin and Cocaine, 1988-98





week during the year.

Estimates are from a 1999 report spansored by the US Office of National Drug Control Policy.



Illicit Drug Production

The most dangerous drugs of abuse in the United States—cocaine, heroin, MDMA (also known as ecstasy), and much of the methamphetamine—are smuggled into the country by international criminal organizations from source countries in Lafin America, Asia, and—for MDMA—Europe. Cocaine consumption in the United States, the world's most important and largest market, has declined somewhat since its peak in the late 1980s, but has remained relatively stable for most of the last decade. Cocaine is produced in the South American Andean countries of Colombia, Peru, and Bolivia; Colombia is the source of an estimated 90 percent of the cocaine supply in the US market.

 In 1999, the United States seized some 73 metric tons of cocaine at its borders, according to the US Customs Service. Fueled by high-purity, low-cost heroin introduced into the US market by Southeast Asian and Colombian traffickers, beroin use in the United States increased significantly in the early-to-mid 1990s and has leveled off in recent years. The purity of heroin currently available in the United States is higher than ever. Southwest Asia's "Golden Crescent" (Afghanistan and Pakistan) and Southeast Asia's "Golden Triangle" (Burma, Laos, and Thailand) are the world's major sources of heroin for the international market, but Colombia is the largest source of supply for the US heroin market and Mexico the second largest. Colombia and Mexico account for about 75 percent of the US heroin market, with heroin from Southeast Asia making up most of the remainder.

 About 875 kilograms of heroin were seized at US ports-of-entry in 1999, according to US Customs Service data. The use of synthetic drugs in the United States, many of which come from abroad, has become a more significant problem over the last decade. Beginning in the 1990s, there has been a dramatic surge in the worldwide production and consumption of synthetic drugs—particularly amphetamine-type stimulants, including methamphetamine and cestassy.

- The majority of methamphetamine available in the US market is produced by Mexican traffickers operating in the United States or in Mexico; the US Drug Enforcement Administration (DEA) estimates that Mexican trafficking groups control 70 to 90 percent of the US methamphetamine supply. There has been a significant increase in methamphetamine production in Southeast Asia in recent years. Although little has found its way to the US market from Southeast Asia, increasing quantities of "Thai Tabs" have been seized in the western United States.
- Most of the ecstasy in the US market is produced in the Netherlands. Amsterdam, Brussels, Frankfurt, and Paris are major European hubs for transshipping ecstasy to foreign markets, including the United States. US law enforcement reporting indicates that the Dominican Republic, Suriname, and Curacao are used as transshipment points for US-bound ecstasy from Europe and that Mexican and South American traffickers are becoming involved in the ecstasy trade. In FY 1999, according to the US Customs Service, 3.5 million ecstasy tablets were seized being smuggled into the United States—a sevenfold increase over the 400,000 tablets seized in 1997. For FY 2000, more than 9.3 million tablets were seized.

Martjuana remains the most widely used and readily available illicit drug in the United States. It is the gateway drug for nearly all users of more dangerous illicit drugs. While most of the martjuana consumed in the United States is from domestic sources, including both outdoor and indoor cannabis cultivation in every state, a significant share of the US market is met by marijuana grown in Mexico, with lesser amounts coming from Jamaica, Colombia, and Canada. Very little of the cannabis grown in other major producers—including Morocco, Lebanon, Afghanistan, Thailand, and Cambodia—comes to the United States.

 In 1999, some 536 metric tons of marijuana were seized entering the United States, most of which came from Mexico.

Drug-Trafficking Networks

International drug-trafficking organizations have extensive networks of suppliers and front companies and businesses to facilitate narcotics smuggling and laundering of illicit proceeds. Colombian and Mexican trafficking organizations dominate the drug trade in the Western Hemisphere. Colombia supplies most of the cocaine and contributes the largest share of heroin to the US market, and Mexico is the major avenue for cocaine trafficking into the United States as well as a major supplier of heroin, marijuana, and methamphetamine. In the Asian source regions, heroin production is dominated by large trafficking organizations, but the trafficking networks smuggling beroin from Asia are more diffuse. Asian heroin shipments typically change hands among criminal organizations as the drug is smuggled to markets in the United States and elsewhere.

The evolution of the international drug trade in the last decade has included greater involvement by a growing number of players and more worldwide trafficking of synthetic drugs. Criminal organizations whose principal activities focus more on traditional contraband smuggling, racketeering enterprises, and fraud schemes have become increasingly involved in international drug trafficking. Although they generally are not narcotics producers themselves, many organized crime groups-including those from Russia, China, Italy, and Albania-have cultivated and expanded ties to drug-trafficking organizations to obtain cocaine, heroin, and synthetic drugs for their own distribution markets and trafficking networks. Traffickers from many countries increasingly are eschewing traditional preferences for criminal partnerships with single ethnic groups and collaborating in the purchase, transportation, and distribution of illegal drugs. Nontraditional trafficking groups-including rebel armies and extremist organizations-have also turned to the drug trade as a means of raising revenue.

Taking advantage of more open borders and modern telecommunications technology, international drug-trafficking organizations are sophisticated and flexible in their operations. They adapt quickly to law enforcement pressures by finding new methods for smuggling drugs, new transshipment routes, and new mechanisms to launder money. In many of the major cocaine- and heroin-producing and transit countries, drug traffickers have acquired significant power and wealth through the use of violence, intimidation, and payoffs of corrupt officials. They are ruthless in protecting their operations, threatening and sometimes resorting to violence against US law enforcement officers and Americans working and living in drug-producing and transit countries.

Global Implications

The consequences of drug abuse and trafficking are also a major challenge to countries worldwide, and they have become serious enough in recent years to affect regional stability. Countries that today are major narcotics producing or transit areas have significant drug addiction problems that grew with their involvement in the drug trade. In some countries, large segments of the population are stricken by AIDS, undermining economic growth and future prospects. The social, economic, and political stresses these problems cause are felt across national borders, contributing to regional economic problems and political tensions.

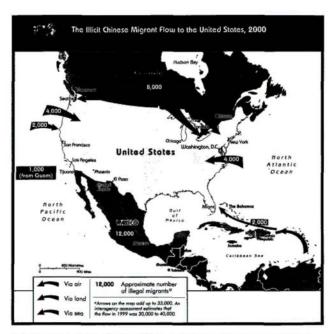
Allen Smuggling

Alien smuggling groups traffic in "human cargo," criminally orchestrating the movement of undocumented or fraudulently documented foreign nationals to the United States and other prosperous countries in often cramped, unhealthy, and dangerous conditions. Countries under economic or demographic stressparticularly China, India, and Pakistan in Asia, and Mexico, Caribbean island nations, and Central American states in the Western Hemisphere-are the major sources of illegal migrants seeking new homes and livelihoods in the United States and Canada. While most illegal migrants come for economic reasons, some are criminals and associates of extremist prouns. Once in their destination country, illegal immigrants disappear into ethnic communities to find work and avoid the authorities.

The US Immigration and Naturalization Service (INS) estimated in 1996 that there were about 5 million undocumented aliens illegally in the United States, representing about 2 percent of the total US population. More than half of the illegal immigrants in the United States—some 2.7 million—are Mexican nationals; another 700,000 came from Central America. Most illegal aliens entered the United States without passing through immigration controls. The remainder—about 40 percent—overstayed their visas. Nearly 80 percent of foreign nationals illegally living or working in the United States are concentrated in five states: California, Texas, New York, Florida, and Illinois, Forty percent live in California alone.

- The US Government estimates that 500,000 illegal migrants are brought into the United States annually by organized alien smuggling networks; another estimated half-million enter without the assistance of alien smugglers. Most illegal migrants enter the United States overland from Mexico or Canada.
- According to US Government estimates, some 500,000 to 600,000 illegal migrants who entered the United States in 1999 were Mexican nationals, and another 225,000 were Central American nationals.
- Chinese smugglers, known as snakeheads, often move aliens into the United States by martime vessels, including offshore transfers of migrants, but also transit South and Central America, Mexico, and Canada. The US Government estimates that 30,000 to 40,000 Chinese were smuggled into the United States in 1999.

Alien smuggling contributes to the broader problem of increasing numbers of foreign nationals illegally resident in the United States, as well as in other relatively prosperous countries, who are straining social and economic resources and contributing to rising crime and anti-immigrant sentiment. Illegal aliens undermine wages and working conditions for legal employees, increasing the potential health and safety risks to the work force. Illegal immigration also increases the burden and cost of some government social programs.



Indications of links connecting some alien smuggling to drug trafficking, terrorist or extremist political organizations, and other organized crime groups are a major cause for concern. Persistent—but largely unverified—reporting from a variety of sources suggests that drug shipments are sometimes collocated with illegal aliens in transit to the United States. Some

primarily drug-trafficking groups are believed to include or work with alien smugglers. Many ethnic-based criminal organizations—particularly Nigerian, Chinese, and Russian crime groups—employ illegal aliens smuggled into the country to undertake higherisk criminal activities. Terrorists and members of extremist organizations seeking to enter the United

States and wanting to avoid detection at ports-of-entry sometimes use the services of alien smuggling networks, including document forging services.

 Several of the conspirators in the 1993 World Trade Center bombing entered the United States with false documents.

Alien smuggling also raises serious human rights concerns, Most illegal migrants come to the United States willingly in search of a better livelihood and higher standard of living, and they pay alien smugglers high prices for that opportunity. However, because they lack legal status and rights, they are often abused en route and once they reach their destinations. Some illegal migrants die in transit from cramped, unhealthy, and unsafe conditions or from abusive treatment by their handlers. Once in the United States, most illegal aliens work in menial jobs with few benefits, and their status puts them very often at the mercy of exploitative employers. To pay off large debts to their smugglers, many illegal immigrants wind up working in unregulated and untaxed industries. Some alien smuggling evolves into trafficking situations where the illegal migrants are forced by their smugglers into other crimes or virtual slavery to pay off their debts.1

• To avoid US law enforcement authorities, it is not uncommon for smugglers to abandon their clients in the desert without food or water, or to toss them in frigid waters. On Chinese alien smuggling vessels in 1999, a number of migrants were beaten by smugglers until they lost consciousness, according to the US Coast Guard. Smugglers also coerced female migrants into sex by witholding food or otherwise making the journey miserable for noncompliant females.

In the last two years there have been several major incidents involving would-be illegal Chinese immigrants found dead inside cargo containers, including three in Seattle in January 2000 and 58 in Britain in June 2000.

Alien Smuggling Networks

Illegal migration facilitated by organized alien smuggling networks is on the rise. The easing of national border controls worldwide, growth of commercial travel options, availability of technology that can be readily adapted to forge identification and travel documents, and the rising sophistication of global criminal networks are key factors contributing to this development. The vast pool of potential migrants seeking economic opportunity in the United States and other developed countries, diminished opportunities for legal migration as the world's more prosperous countries seek to reduce immigration, and increased border enforcement and interdiction of illegal migrants have translated into substantial profits for alien smuggling groups.

 The UN estimates that migrant smuggling worldwide involves 4 million people and \$7 billion annually, according to a report in December 1997.

Besides being a profitable criminal business, amuggling illegal immigrants is less risky than trafficking in other illicit contraband, such as drugs. Only a handful of source and transit countries have enacted criminal statutes against allen smuggling, and virtually no ethnic group stigmatizes the practice. Most governments—including those in Central America, a primary conduit for smuggling illegal migrants into the United States—are lax toward allen smuggling because they view it largely as a US problem and perceive higher bilateral priorities with Washington.

Alien smuggling thrives in corrupt environments, and bribery undermines effective enforcement against illegal border crossings and false documentation where corruption is less endemic. The ready availability of means to counterfeit and forge travel documents also minimizes the risks for traffickers in "human cargo."

The US Government and two different UN protocols make a distinction between allen smaggling—in which foreign individuals willingly contract to be smuggled into a country by persons who gain financial or other material personal benefit from procurate litting and traffiching in persons, in which individuals (particularly women and children) are recruited or transported, by means of fraud, deception, corection, abduction, or the abuse of power, for purposes of exploitation, including sexual exploitation, become an exploitation of the process o

The networks involved in alien smuggling are highly efficient movers of people across national frontiers. Unlike other international criminal organizations, some of which smuggle illegal aliens as an adjunct to other criminal activities, alien smuggling groups typically are less hierarchical and more characterized by loose networks of associates to facilitate the movement of illegal migrants across regions and continents. These networks typically include local agents who recruit people interested in illegal immigration to the United States and elsewhere and bring them together for departure; travel processors who arrange for identification and any necessary travel documents; and international "brokers" along the way who facilitate intermediate passages and make arrangements for arrival at final destinations. The widespread dispersion of associates gives alien smuggling groups the flexibility to quickly and easily shift routes or call upon different operatives if law enforcement or other conditions disrupt their operations. The fact that groups of illegal aliens are typically handed from smuggler to smuggler during portions of their journey makes it difficult to target and disrupt alien smuggling networks.

Central America has emerged as the primary gateway for US-bound illegal migrants from all over the world. Scores of loosely linked networks that span the region and extend into Asia facilitate their movement. These networks include an abundance of smugglers and escorts, fraudulent document vendors, safehouse keepers, corrupt airline and bus company employees, and corrupt officials. While illegal migrants from China and elsewhere outside the Western Hemisphere have handlers for all stages of their journey through Central America, many Central American migrants do not enlist the services of a smuggler until they independently reach Mexico. Many illegal migrants caught in Central America are deported to the country from which they most recently arrived, which is usually another country in the region or hemisphere, because they travel without documents indicating their country of origin. From there, they usually resume traveling northward.

Although many alien smuggling groups are highly specialized, the growing profitability of this critical business has increased the involvement of larger polycrime syndicates. Some groups have engaged in moving both drugs and people, although not necessarily at the same time

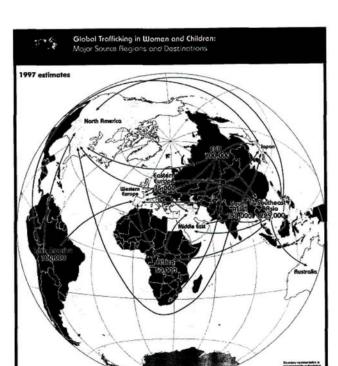
APPROVED FOR RELEASE DATE: JAN 2001 The Chinese Fuk Ching Gang, for example, has engaged in large-scale smuggling of illegal immigrants by sea. This group was reportedly responsible for organizing the voyage of the Golden Venture, which ran aground off New York City in 1993 with hundreds of illegal Chinese aliens from Fujian Province aboard.

Trafficking in Women and Children

Trafficking in human beings, especially women and children, across international borders for sexual exploitation and forced labor is an increasing crime problem as well as a grave violation of human rights. People caught in human trafficking irrigas are placed in situations of abuse and exploitation—including enforced prostitution, sexual slavery, sweatshop labor, domestic servitude or other forms of coerced labor, service, or subjugation—that subject them to the threat of violence, rape, battery, and extreme cruelty.

- The US Government estimated in 1997 that 700,000 women and children were moved across international borders by trafficking rings each year. Some nongovernmental organizations estimate the number to be significantly higher.
- The worldwide brothel industry earns at least \$4 billion from trafficking victims, according to US Government estimates.

Some 45,000 to 50,000 women and children were trafficked to the United States, according to US Government estimates for 1997, about 6 to 7 percent of the worldwide total. Most are from Southeast Asia and Latin America. There have also been a few cases where American women have been trafficked abroad. US international airports in New York, Miami, Chicago, Los Angeles, and San Francisco are major entry points for traffickers bringing women and children into the United States. Greater Customs and Immigration scrutiny at these airports have caused the District of Columbia, Cleveland, Orlando, Atlanta, and



Numerical estimates include intraregional trafficking but exclude intracountry trafficking. For the purpose of these estimates, children are defined as females younger than 18 years old. This segment of the trafficking—mostly for prostitution—accounts for approximately 30 percent of the total, according to various reports. Males under 18 years old account for a very small fraction—approximately 2 parents of the total proximately 3 p

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Houston to emerge as significant ports-of-entry for victims of trafficking rings. Like alien smuggling in general, trafficking in women and children helps build criminal support structures in the United States.

- Trafficking to the United States violates US criminal, immigration, and labor laws, as well as the Victims of Trafficking and Violence Protection Act.
 Trafficking also usually involves conspiracy and visa, mail, and wire fraud. The gross, systematic violation of human rights, which often includes kidnapping, extortion, and enslavement, is also a violation of US laws.
- In 1997, Florida police arrested a brothel operator who smuggled Mexican women and underage children into the United States and forced them to work as prostitutes to pay off their \$2,000 smuggle fee.

The dramatic rise in cross-border crimes against children is a growing concern. US law enforcement agencies also report an increase in international sex tourism in which adults—including US citizens travel to foreign countries to have sex with children.

 Typically, the children—some not yet teenagers are victims of trafficking, having been sold by their families or kidnapped and forced into bondage.

Trafficking Networks

Traffickers of women and children, much like narcotics traffickers, operate boldly across sovereign borders. They prey on women from countries where economic and employment prospects are bleak, organized crime is rampant, and females have a subordinate role in society. Often these women are tricked into leaving their countries by false promises of a better economic life abroad; traffickers lure victims with false advertisements and promises of jobs as models, dancers, waitresses, and maids. Once the women are abroad, traffickers use a variety of coercive means to sell and enslave them. In other instances, traffickers buy young girls from their relatives. The UN Commission on Crime Prevention and Criminal Justice has reported a dramatic increase in the abduction of children for commercial purposes by organized crime syndicates.

- According to the US Government, an estimated 225,000 women and children from Southeast Asia were trafficked across international borders in 1997, accounting for nearly one-third of the worldwide total. Nearly half are younger than 18, and most—60 percent—are trafficked within the East Asia-Pacific region, primarily to wealthier markets such as Thailand, Hong Kong, Singapore, Japan, and Australia. An estimated 30,000 women from Southeast Asia were trafficked to the US market in 1997, about twothirds of the total trafficking victims brought into the United States that year.
- Latin America was the second-largest source region for women and children trafficked to the United States in 1997. About 10,000 of the total 100,000 women and children caught in Latin American trafficking rings in 1997 were sent to the United States, according to US Government estimates.
- The former Soviet Union and Eastern Europe is becoming an important center for trafficking in women and children. The US Government estimates that about 175,000 of the women and children from countries in these regions were caught in trafficking rings in 1997. Most—an estimated 120,000—were sent to Western Europe, with Germany, Italy, and the Netherlands the most likely destinations. About 4,000 women and children from the former Soviet Union and Eastern Europe were brought to the United States.
- Some 150,000 victims from South Asia were trafficked to buyers elsewhere in the region, in the Middle East, and in Southeast Asia in 1997.

Traffickers of women and children use a variety of methods to move their victims across national and international boundaries. They sometimes operate through nominally reputable employment agencies, travel agencies, entertainment companies, or marriage agencies. Legitimate travel documents are often obtained and used to cross international borders, after which the trafficking victims disappear or overstay their visas. Traffickers, however, also use fraudulent

documents to obtain genuine travel documents or use altered or counterfeit documents to move the women and children. Victims caught in these trafficking rings are most often moved out of their home countries and regions by commercial airlines. Traffickers typically move them in small groups, change flights frequently, and vary their routes in efforts to avoid being caught.

While small trafficking groups with loosely connected networks and affiliates dominate the global trade in women and children, the role of large, polycrime international criminal organizations is becoming an increasing problem. Because women and children are seen as a reusable commodity, trafficking in human beings is becoming a major source of income for some organized crime groups. Profits from this activity are laundered and fed into other illicit activities, including narcotics and arms trafficking.

Corrupt officials often facilitate trafficking in the source, transit, or destination countries. Law enforcement officials in the source countries often ignore the recruitment process, since they believe that in most cases the actual coercion takes place at the final destination.

- In Bulgaria, four senior officials—including two involved in security or antierime forces—were fired in April 1997 because of their links to an organized crime group involved in procuring women for forced prostitution, according to Bulgarian press.
- In Thailand, traffickers recruit military and police force members to serve as escorts for women who are being trafficked to foreign sex markets.

Trafficking in women and children to the United States and abroad is likely to continue increasing in the years ahead given the large profits, relatively low risk, and rare convictions for traffickers. Lack of visa and border controls, as well as almost nonexistent antitrafficking legislation in many source and transit countries, will only further embodene the traffickers. Economic hardship, poor employment prospects, and the low status of females in many source countries will continue to underpin the problem.

- These concerns are leading to increased international countermeasures. In 1998, the G-8 heads of state, for example, used their communique at Birmingham to call for activities to prevent trafficking, prosecute the criminals, and protect the victims.
- In 1998, the United States introduced a resolution on trafficking in women and children that was adopted by the UN Crime Commission. The resulting protocol on trafficking in persons, cosponsored by the United States and Argentina, will be attached to the UN Convention Against Transnational Organized Crime.

Environmental Crimes

Environmental crime is one of the most profitable and fastest growing new areas of international criminal activity. Growing international environmental concerns have led to the proliferation of multilateral conventions and national laws and regulations to control pollutants that are health or environmental hazards, to prevent wanton exploitation of scarce natural resources, and to protect endangered plant and animal species. Criminal organizations around the worldmost notably in Italy, Russia, China, and Japan-have taken advantage of the significantly greater costs for waste disposal, as well as the much-increased value of rare or precious natural resource commodities that are the subject of tight trade and sale restrictions, to earn substantial illicit income from circumventing environmental laws and regulations.

 The US Government estimates that local and international crime syndicates worldwide earn \$22-31 billion annually from hazardous waste dumping, smuggling proscribed hazardous materials, and exploiting and trafficking protected natural resources.



Selected Criminal Groups' Involvement in Environmental Abuses

Environmental Abuse	Criminal Syndicates or Individuals Involved	Estimated Yearly Dollar Volue or Value per Abuse			
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The tremendous costs for legally disposing of pollutants and dangerous chemicals have created new illicit business opportunities for criminal organizations, who earn \$10-12 billion per year for dumping trash and hazardous waste materials. Organized crime groups are taking increasing advantage of the multibilliondollar legal trade in recyclable materials, such as scrap metals, to comingle or illegally export or dump toxic wastes. Most of these wastes are shipped in "trash-forcash" schemes to countries in Eastern and Central Europe, Asia, and Africa where disposal costs and enforcement of environmental regulations are lower. The lack of specific legislation governing such crimes in many countries and poor enforcement or limited legal penalties in many others (often only fines that are insignificant in comparison to the millions in profits that can be made from this activity) reduce the risks for international crime groups involved in dumping hazardous wastes.

While crime groups in Russia, Japan, and elsewhere have increasingly movel into illegal waste disposal, Italian criminal organizations are the most involved largely because of their success in infiltrating Italy's industrial waste disposal sector. They have used their control over waste-disposal businesses, both legitimate and front companies, to secure contracts in Italy and elsewhere in Europe and illegally dump wastes to boost profits.

- About half the 80 million metric tons of waste produced annually in Italy disappears and is presumed
 to be illegally dumped, according to Italian press
 sources. In 1997, Italian law enforcement authorities
 investigating the role of Italian organized crime in
 the illegal export and dumping of hazardous wastes
 claimed that criminal groups control most of Italy's
 waste disposal contracts.
- Italian authorities claimed in 1997 that 11 million metric tons of toxic and industrial waste are deposited annually in some 2,000 illegal domestic dump sites in local waterways or in the Mediterranean.
- In 1997, there were at least 53 Italian crime groups trafficking and disposing of hazardous waste, which was shipped to dumpsites in Albania, Eastern

Europe, and the African west coast, according to European law enforcement officials cited in the press.

The lack of inexpensive, adequate, safe disposal options for radioactive waste is also attracting the increased involvement of organized crime groups throughout Europe. In many cases, these groups appear to be using illicit networks already in place for smuerling arms, drugs, and other contraband.

European authorities are investigating illegal dumping of radioactive wastes from Austin, France, and Germany—all of which have good, but costly, disposal options—and Eastern Europe into the Mediterranean and Adriatic Seas by companies purportedly hired by Italian organized crime groups. In 1998, an 'Ndrangheta Italian organized crime family was being investigated by Italian authorities for dumping radioactive waste off Italy's southern coast, according to press reports.

Criminal groups also amuggle environmentally harmful products, particularly ozone-depleting chlorofluorocarbons (CPCs) whose legal trade is subject to stringent international restrictions. The illegal trade of these substances into the United States and other markets is accomplished through false labeling, counterfeit paperwork, and bogus export corporations.

 The size of the global black market for ozonedepleting substances is estimated by the UN to range from 20,000 to 30,000 metric tons annually, with more than half entering the United States. Illegal imports of these substances are far cheaper than CFCs that are legally recycled or obtained from limited existing stocks.

The stealing and illicit trade of natural resources is also a significant income generator for criminal organizations, earning them 53-8 billion per year. Wellorganized criminal groups in Africa, Eastern Europe, Latin America, China, and Southeast and Southwest Asia are heavily involved in illegal logging and trade of forest timber. Illegal logging threatens bio-diversity and has contributed to the significant decline in forest areas worldwide. Russian and Chinese crime groups earn substantial income from illegal fishing. Poaching not only depletes seafood stocks, but also deprives seafood industries of legitimate earnings and government authorities of import and export revenues.

• Russian crime syndicates are believed to earn as much as \$4 billion annually from the illegal export of some 2 million metric tons of seafood, according to press reports citing Russian law enforcement estimates. The poaching of sturgeon from the northern Caspian Sea and the sale of crab and other seafood to Japan make up much of the trade. Japan, in 1997, imported more than \$1 billion worth of fish from Russia—six times the volume that Moscow says it exported, according to trade data.

The illegal trade in animal parts—in particular elephant, whale, and hawsbill turtle parts—and endangered animal species has also become a lucrative business, particularly for Chinese and other Asian criminal groups. The illegal trade in exotic birds, ivory and rhino horn, reptiles and insects, rare tigers, and wild game is estimated to earn criminal groups. \$6-10 billion per year. In April 1999, waiver of the international ban on the African ivory trade to allow shipments to Japan caused a surge in posching and smuggling of African and Asian elephant ivory.

Sanctions Violations

Some states of concern use international criminal networks to help in their efforts to undermine US and multilateral sanctions aimed at isolating those states from the global community. Regional and international networks of front companies, unethical businessmen, and crime groups help these regimes evade trade, military, and financial sanctions by facilitating clandestine shipments of embargoed products including weapons, and executing financial transfers.

 In the 1990s, trade and other sanctions on Serbia and Montenegro in the former Yugoslavia, Iraq, Libya, and Haiti were imposed by Western countries or the United Nations. In addition to these sanctions, the United States has maintained financial sanctions, as well as extensive trade embargoes, on Cuba, North Korea, Iran, and several other countries.

Iraq, which unlike the other states of concern is currently under comprehensive trade sanctions, has used traditional means for smuggling contraband to earn substantial illicit export revenue that Baghdad uses to fund procurement of embargoed goods. Much of Iraq's smuggling-derived income comes from Baghdad's illicit exports of gasoil through Iran's territorial waters and across its land borders. Barges, small tankers, cargo ships, and dhows are used by the Iraqis for maritime smuggling of gasoil exports.

In most cases, states of concern make use of legitimate and illicit business infrastructures to circumvent sanctions. Much of this activity takes place in countries with a high volume of commercial trade, including legal commerce with the regime, that could mask surreptitious dealings. In some cases, organized crime groups have played a significant role in attempts to circumvent trade sanctions. Most notably in the former Yugoslavia, local crime groups have flourished by stepping in to arrange clandestine shipments of embargoed goods and to provide covert financing.

Illicit Technology Transfers and Smuggling of Materials for Weapons of Mass Destruction

Several countries—including Iran, Iraq, Libya, Pakistan, and North Korea—have relied on networks of independent brokers and front companies to acquire controlled technology and circumvent US and international efforts to prevent them from developing weapons of mass destruction. The threat posed by continuing indications that states of concern and terrorist groups are intent on acquiring nuclear, chemical, or biological weapons increases the likelihood that international criminal networks may be used to smuggle the materials needed for their production.

There is no confirmed reporting that organized criminal groups have planned or attempted to steal nuclear warheads or weapons-usable nuclear material

(uranium with greater than 90-percent uranium-235 concentration and plutonium). Known thefts of won-susable nuclear material have primarily been committed by opportunists with insider knowledge of the facility storing nuclear material but without buyers identified prior to the theft.

 To date, there have been a total of 14 confirmed seizures totaling 15.3 kilograms of weapons-usable uranium at various enrichments and 368.8 grams of plutonium—far less than what is necessary for a nuclear weapon.

Arms Trafficking

Illicit gray- and black-market arms sales became an increasing problem during the 1990s and pose an array of threats to US national security and foreign policy interests. The end of the Cold War and the winding down of several regional conflicts, such as those in Lebanon and Central America, increased the availability of both newly produced and used weapons. The items typically sold on the illegal arms market include spare parts for large weapons systems, particularly for clients under UN embargoes or sanctioned by the original seller, small arms, including assault rifles, and man-portable artitiank and antiair-craft weapons; and ammunition for both small arms and larger artillery and armor systems. In some case, however, larger military systems also are some case,

The US Government estimates that military equipment worth several hundred million dollars is sold annually on the illegal arms market to countries under UN arms embargoes. Insurgents, terrorists, and organized criminal groups acquire smaller quantities of small arms and other light infantry weapons on the illegal arms market.

Most illegal arms sales are through the gray arms market, which has been dominated by individual brokers—and their arms brokering firms—during the past decade. Gray-market arms transfers exploit legitimate export licensing processes, usually by using false paperwork to disguise the recipient, the military nature of the goods involved, or—more rarely—the supplier. Obtaining licensees, however fraudulent, allows gray-market players to make deals appear legitimate, helping them to arrange payment and international transportation for transactions that can be valued at millions of dollars and involve hundreds of tons of weapons.

 In some cases, however, large illegal arms shipments arranged by gray arms brokers will be smuggled as contraband. Illicit arms sold or transferred to combatants in Afghanistan and the former republics of Yugoslavia were often provided by foreign suppliers donating and transporting tens of millions of dollars worth of weapons disguised as "humanitarian aid."

The end of the Cold War has made the bloated defense industry and large inventory of weapons in Russia and other former Warsaw Pact countries an easy mark for gray-market brokers. Since 1992, for example, combatants in civil conflicts in Afghanistan and the republics of the former Yugoslavia have purchased dozens of complete helicopters and fighter aircraft from gray arms suppliers. Brokers also acquire military equipment from US and other Western suppliers.

Black-market arms transfers do not go through an export licensing process. Rather, smugglers rely exclusively on hiding contraband arms from government officials. Black-market transfers usually involve smaller quantities of weapons, often pilfered from military stocks or gunshops. The theft and illegal sales of weapons and other military stocks has become a significant problem in Russia.

Organized crime groups have become increasingly involved in arms trafficking since the end of the Cold War, taking advantage of both the availability of large numbers of infantry weapons from the former Soviet Bloc countries and regional conflicts.

 In the midst of conflicts in the former Yugoslavia, Italian and Russian criminal organizations have been buying and selling military-style arms on the black market, and criminal groups operating in the region are increasingly well armed.

Threats to US Security Interests

Illicit arms sales help fuel conflicts and undermine US political and military efforts to promote stability in several regions of the world. The illegal arms trade has helped arm combatants in the former Yugoslavia and Africa. Countries under UN or other international arms embargoes in which the United States participates are major clients in the illicit arms market. Purchates by insurgents and factions in civil war increase the risk to US military personnel and law enforcement officers operating in hostile environments overseas.

Insurgents and extremists acquire some small arms and ammunition to augment their own inventories of weapons. Although terrorist groups frequently try to obtain weapons on their own, their greatest source of conventional military weapons continues to be state sponsors like Iran and Libya.

Drug traffickers and organized criminal groups have increasingly turned to the illlicit arms market in the 1990s. In addition to smuggling weapons via the black market, these organizations have used gray-market acquisitions of military weapons to strengthen their ability to defend their operations from government forces and rivel organization.

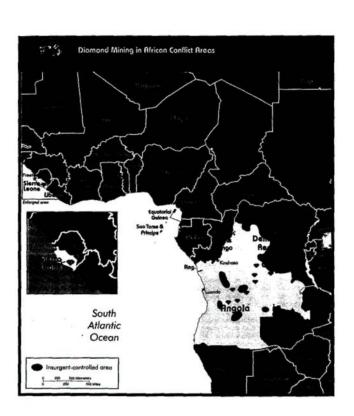
Trafficking in Precious Gems

The lucrative market for diamonds, gold, and other precious gens has attracted the interest of organized crime groups as well as become the dominant source of revenue for warlords and insurgent groups in wartorn diamond-rich areas in Africa. Diamond brokers traditionally have given little scrutiny to the source of rough diamonds they purchase for the global industry in precious gems and jewelry. Trafficking in diamonds, gold, and other precious gems has not generally underect the profits of legitimate mining industries, but has deprived national governments of significant export-related revenues.

Nearly three-quarters of the world's rough diamonds—valued at about \$5.2 billion on the open market—are mined in Africa, according to 1998 industry estimates. Of the total 1998 diamond production in Africa, 13 percent was mined informally, mostly by insurgent groups.

Russian, Chinese, Italian, and African criminal groups are involved in the illegal trade of precious minerals and gems. Russian crime groups are believed to have inflitrated the legitimate diamond and gold industries in Russia to smuggle precious gems out of the country. They use an array of front companies to conceal and facilitate smuggling operations. Payoffs to local authorities allow them to avoid customs duties and other tariffs, increasing their profit potential when they sell these precious gems at market value to industry brokers.

 Russian crime groups illegally extract and sell 300 metric tons of amber worth an estimated \$1 billion each year, according to 1998 press reports.



APPROVED FOR RELEASE DATE: JAN 2001

- Criminal syndicates operating in South Africa stole 20 metric tons of gold and diamonds valued at \$350 million in 1996, according to press reports citing South African police,
- In Southeast Asia, smuggling of precious gems was a major source of revenue for the Khmer Rouge insurgency in Cambodia and remains a secondary source of income for drug-trafficking insurgent armies based in Burma.

In recent years, trafficking in diamonds by insurgent groups in Africa to finance their wars in the face of regional and international efforts and embargoes to end the fighting has become a significant problem. The UNITA insurgent group in Angola, rebel militias in the Democratic Republic of the Congo (DROC), and the Revolutionary United Front (RUF) in Sierra Leone exploit the lucrative diamond mines located in areas they control to raise revenue for arms purchases and other operational expenses. The RUF's principal supporter—neighboring Liberia—also profits from the illicit diamond trade in Sierra Leone.

The sale of diamonds for arms and other supplies by insurgent groups in Africa has stymied regional and international peace efforts and kept the fighting at high levels, resulting in significant casualties and displacement of civilian populations. Insurgents' control of most of their countries' diamond mines has also deprived the governments of substantial revenues.

- According to an industry estimate, the value of rough-cut diamonds trafficked by UNITA rebels in 1998 was about \$300 million, as compared to earnings of about \$230 million for producing mines in areas controlled by the Angolan Government. Since the government offensive in late 1999, however, the loss of diamond mines and international sanctions have curtailed UNITA's diamond production in 1999-2000 to about \$100 million.
- The same industry source indicates that rough-cut diamonds from source-areas partly controlled by insurgent groups in DROC were valued at about \$338 million in 1998.
- Most of the diamond trade in Sierra Leone, earning about \$45 million annually, is controlled by the RUF insurgents.

APPROVED FOR RELEASE DATE: JAN 2001 Growing international concern about the ability of African insurgent groups noted for their stroctices against civilians to finance their operations through the trafficking in rough-cut diamonds has led to movements for international certification regimes, although much work remains to be done.

Piracy

Maritime piracy, which is particularly prevalent off the coasts of Southeast Asia and Africa, threatens the security of some of the world's most important sea lanes as well as the safe and orderly flow of international maritime commerce. Piracy raises insurance rates, restricts free trade, increases tensions between the affected littoral states, their neighbors, and the countries whose flagged ships are attacked or hijacked. This criminal activity also has the potential to cause enormous damage to the sea and shorelines when ships carrying environmentally hazardous cargoes are targeted. Pirates endanger navigation by leaving vessels, including fully laden tankers, under way and not in command, increasing the risk of collision or grounding.

 According to data made available by the US Coast Guard, direct financial losses incurred as a result of high-seas piracy are estimated at about \$450 million per year.

Reported incidents of maritime piracy have more than doubled since 1994, according to data from the International Maritime Bureau (IMB) Piracy Reporting Center based in Malaysia, averaging between 200 and 300 per year over the last five years as compared to an average of less than 100 piracy incidents between 1990 and 1994. These figures, however, understate the extent of the problem because most piracy attacks go unreported. In particular, incidents involving coastal fishermen and recreational boaters are heavily underreported.

 In 1999, there were 285 attacks on ships at sea, at anchor, or in port, according to the International Maritime Bureau's Piracy Reporting Center. Piracy attacks increased by 25 percent from 1998 to 1999, with 408 crewmembers taken hostage in ship boardings.

Most acts of maritime piracy take place in poorly patrolled straits and coastal waterways, where pirates are able to strike quickly with little warning. Piracy is a significant problem (as it has been for centuries) along the coasts of Indonesia, Malaysia, Thailand, and the Philippines, where numerous maritime chokepoints channel large numbers of merchant ships into coastal waters where they are most vulnerable to attack. The west coast of Africa, off Nigeria and Senegal, and Somalia's east coast are the most piracyprone areas in Africa. In East Africa, the ports of Mombasa, Kenya, and Dar es Salaam, Tanzania, are plagued by pirate attacks against berthed or anchored ships. While a large number of piracy attacks are targets of opportunity, local press reporting indicates that in some cases ships are specifically targeted for their cargo and the sale of their goods is prearranged on the black market.

- Of the total piracy incidents reported for 1999, eight ships were hijacked, mostly in the waters off Southeast Asia and Somalia.
- Pirate groups generally appear to operate independently, but some may be linked to more traditional organized crime groups.

The growing sophistication and increasing violence of piracy is a major concern to the maritime industry and to governments, particularly in Asia where piracy is having greater impact on maritime commerce. There are increasing incidents of maritime pirates coordinating multiship attacks and attempting to disguise their vessels. They often appear to be familiar with shipping schedules, plotting their attacks and hijackings of cargo accordingly. In some cases, pirates target only local shipping lines, which may own only one or two vessels, rather than ships from larger shipping companies. In addition, many of the pirate ships are increasingly well-armed and inclined to use force when seizing targeted vessels. From 1995 to 1998, the

number of crewmembers assaulted, injured, or killed increased each year, according to data from the International Maritime Bureau in Malaysia.

Nondrug Contraband Smuggling

Nondrug contraband smuggling across international borders—including illegal import and export of legitimate goods such as alcohol, cigarettes, textiles, and manufactured products—is a highly profitable criminal activity that typically carries lighter criminal penalties than narootics trafficking. The evasion of tariffs and taxes on commodities can reap sizable illicit profits for criminal organizations or companies engaged in illegal trade—often at the expense of US companies—both by saving tax payments and by undercutting the market price of legitimate sales. The trafficking of contraband across international borders is prevalent in countries with large volumes of commercial trade, which helps minimize the risk of law enforcement detection and high import duties.

 High profits and lighter penalties in contraband smuggling have attracted criminal organizations from Asia, the former Soviet Union, the Middle East, and Central and South America.

Consumer demand for contraband—particularly tobacco and alcohol products and expensive items such as laxury automobiles—is especially high in countries where high-import tariffs and excise taxes add significantly to the price of legitimate sales. International contraband smuggling rings cater to consumers seeking to acquire luxury items cheaply by avoiding customs duties and other taxes. Revenue losses caused by the trafficking and black-market sale of contraband commodities can be significant.

 Russia, China, and countries of the former Yugoslavia are among those with the highest tariffs on luxury imports, making them prime markets for contraband smuggling.

- Colombian drug traffickers often use illicit drug proceeds to purchase cigarettes that they smuggle into
 Colombia for black-market sales, avoiding high tariffs and taxes on legal tobacco imports, according to
 the US Bureau of Alcohol, Tobacco, and Firearms.
- Cigarette smuggling into European Union countries cost them \$3.7 billion in 1999, according to an EU study. The Scandinavian countries have also suffered major revenue losses because of trafficking and black-market sales of tobacco and alcohol by crime groups, primarily from the former Soviet Bloc and former Yugoslavia, that circumvent their import, excise, and value-added taxes.

Illegal imports and exports are a particular problem for the United States, which is considered by criminals with international connections to be both a major market and source for contraband as well as a transit avenue for international contraband smuggling. Criminals involved in smuggling contraband rely on the volume of export trade in the United States to conceal their illicit activities.

- US Customs data indicate more than 1.3 million people, 341,000 vehicles, and more than 45,000 trucks and containers enter the United States daily. The Customs Service is able to physically examine only about 3 percent of all goods crossing US borders each day. Five years from now, US Customs will be able to inspect only 1 percent of all goods entering the United States if resource levels remain unchanged.
- Contraband, such as firearms, alcohol, or cigarettes, is frequently concealed in shipping containers or packaging for seemingly legitimate goods.

In addition, the United States is frequently a transit country for merchandise being shipped to another foreign destination. Routing contraband through a transit country helps to conceal the true country of origin on merchandise that is controlled or restricted by the importing country.

Most contraband smuggling is facilitated by physical concealment of the illicit goods or by a fraudulent misrepresentation of facts. False invoicing, over or under valuation of goods, and transfer price mechanisms are frequently used to misrepresent the value of smuggled goods; undervaluation of goods allows contraband traffickers to avoid tariffs or excise taxes, while overvaluation is used either to disguise the true identity of the item or to launder illicitly derived proceeds.

Contraband Smuggling Into the United States

The volume of contraband commercial goods entering the United States skews the marketplace for some manufacturing, retail, and even high-tech industries by providing consumers with less expensive substitutes for legitimate products, hindering the compeditiveness of US businesses. Moreover, many contraband imports are substandard products—such as tainted foods, substandard automotive parts, or dangerous imitation pharmaceutical drugs—that may threaten public health and safety.

The uncontrolled movement and disposal of hazardous wastes and material into and within the United States may cause harm to public safety and the ecosystem. The black market for chloroflourocarbons (CPCs), which deplete ozone from the atmosphere, in the United States and Europe is an extremely lucrative illicit business for international criminals. Russia, China, Mexico, and India are major sources of the approximately 10,000 to 20,000 metric tons of CFCs that US Customs has reported are smuggled into the United States each year. In addition to undermining international progress toward eliminating the use of ozone-depleting substances, the illegal CFC trade evades the high cost of US excise taxes on legally imported CFCs and takes business away from US companies developing ozone-safe chemicals and the equipment that uses them.

 Brokers in Mexico can purchase freon, much of it legally imported from China, for less than \$2 per kilogram and sell it in Los Angeles for 10 times as much, according to US Customs officials.

 Industry estimates in 1998 indicated that smugglers of ozone-depleting substances earn as much as \$600 million annually from sales to buyers in Europe and North America and deprive the US Government of some \$150 million in excise tax revenues each year.

The United States is most often the destination of illicit trade in protected wildlife and rare plants. although both the United States and Canada are also raided to obtain exotic plants and animals. Trafficking in exotic species threatens bio-diversity and could expose unsuspecting Americans to deadly diseases.

Contraband Smuggling Out of the United States Illegal exports of contraband leaving the United States are a significant problem, with criminal networks engaged in this activity taking advantage of US federal and state laws as well as the border control focus on the smuggling of drugs, illegal immigrants, and other contraband into the United States. Commodities smuggled out of the United States are often items restricted for export by US law and involve munitions list items, firearms, and defense-related technologies tightly controlled for export by the US Government. Other items frequently smuggled out of the United States include stolen automobiles, dual-use items, and other goods that are difficult to obtain.

 Illegal trafficking in US-origin firearms has become a security issue of concern for many foreign governments. Foreign law enforcement agencies continue to uncover US-manufactured firearms owned by narcotics traffickers, insurgents, terrorists, and organized crime groups. Several foreign governments are pressing the US Government to stem the international flow of weapons from the United States. The US Customs Service seized nearly \$4.6 million in arms and ammunition at US ports-ofentry and exit in 1999.

The illegal smuggling and trafficking of US-manufactured cigarettes and alcohol by worldwide criminal networks results in major losses of legitimate state revenues in Europe, Russia, Asia, and the Western Hemisphere. Some alcohol and tobacco contraband are legally exported but stolen in transit-often at an intermediate stop-or after they legally entered the destination country for black-market sales. Some US cigarette manufacturers sell directly to known smugglers. If US taxes on cigarettes rise over the receive for RELEASE

eral years, international crime syndicates may expand smuggling operations into the United States to circumvent import taxes.

Contraband smuggling groups with worldwide networks are meeting a growing demand for stolen vehicles from the United States, as well as Western Europe and Japan. Luxury and sports utility vehicles are in particular high demand by criminals because of their high international black-market values and low probability of being detected by law enforcement in overseas markets. The annual global contraband trade in stolen vehicles is estimated at \$10-15 billion.

- . In 1997 the FBI Uniform Crime Report estimated that 1.4-1.6 million automobiles are stolen annually in the United States, of which 200,000 valued at approximately \$20,000 each are illegally transported out of the country-making the overseas black market for stolen US vehicles worth about \$4 billion. Fewer than 1 percent of US stolen vehicles smuggled overseas are repatriated.
- · European law enforcement agencies report that 300,000 vehicles worth some \$5 billion are acquired by car theft rings annually in the European Union countries.

The demand for stolen luxury cars is especially high in Russia and China, where import tariffs average more than 100 percent for most types of luxury vehicles, according to data from the US Commerce Department and industry sources. According to estimates by the National Insurance Crime Bureau, stolen vehicles sold in Europe fetch three to four times their US market value.

Crime syndicates from China, Russia, Eastern Europe, and Mexico dominate much of the world trade in stolen cars. Russian and Asian crime groups rely on members or associates in the United States, who often collaborate with local theft gangs in US cities, to steal vehicles and arrange for transport overseas. Both Russian and Asian criminal groups cooperate with Mexican smuggling rings that appear to be responsible for



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moving stolen vehicles across the US-Mexican border for re-export to Russia and China, according to insur-ance industry and press sources. Automobile smuggling syndicates export most of the vehicles stolen in the United States in maritime shipping containers either directly from US seaports, or after driving the vehicles into Mexico. Most vehicles stolen in Western Europe, on the other hand, are simply driven to Russia or other destinations.

• International car theft rings run by Russian, Asian, Asian, and other crime groups appear to be increasingly organized and professional in their operations, according to US Custons reporting. Their operations include altering vehicle identification numbers so the stolen vehicles cannot be traced. Many countries in which these vehicles are sold lack the technical expertise to detect such tampering.

Trafficking stolen vehicles also helps crime groups facilitate other international criminal activities. Stolen vehicles, for example, sometimes are used to conceal and transport narcotics or other smuggled contraband.

Intellectual Property Rights (IPR) Violations

Most intellectual property rights (JPR) crimes affecting US businesses involve the theft of trade secrets
and copyright, trademark, and patent violations. Criminal violations of intellectual property rights—particularly the sale of counterfeit or filegally manufactured
products—distort international trade, undermine the
legitimate marketplace, and cause extensive revenue
losses to legitimate industries: The explosion of digitization and the Internet have further enabled IPR violators to easily copy and illegally distribute trade
secrets, trademarks, and logos.

US basinesses are particularly vulnerable and especially hard hit by counterfeiting and other forms of copyright, trademark, and patent infringement because the United States leads the world in the creation and export of intellectual property—primarily in motion pictures, computer software, sound recording, and book publishing. These industries contributed more than \$270 billion to the US economy in 1996, or approximately 3.65 percent of GDP, according to International Intellectual Property Association estimates. Copyright industry products have surpassed agricultural products as the single-largest export sector in the US economy, and America's three largest software companies are now worth more than the steel, automotive, aerospace, chemical, and plastics industries combined.

Counterfeit or illegally manufactured products compete with, and often displace, legitimate sales. US businesses increasingly are losing legitimate sales due to the manufacture and distribution of illegal products that violate intellectual property rights. Many of these illegal products are exported to the United States, but most are circulated in markets abroad in direct competition with the legitimate products of US firms. In some countries, illicit products saturate the domestic market so completely that it is impossible for owners of intellectual property copyrights and trademarks to establish legitimate manufacturing or distribution interests.

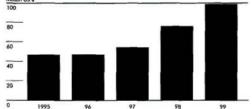
US businesses experience significant profit and market loss due to the theft of trade secrets. Foreign companies seek to steal US trade secrets—particularly theft of sensitive information pertaining to research and development, production processes, and corporate strategies—to erode US companies' overseas market competitiveness and technological leadership. By so doing, they also try to outmaneuver or underbid US companies, hoping to tilt the playing field in their favor. The American Society for Industrial Security, which conducts a comprehensive survey of Fortune 500 companies, estimated in 2000 that potential known losses to all American industry resulting from the theft of proprietary information amounted to \$45 billion.

Copyright violations primarily involve the illicit production and sale of computer software, recorded music, and videos. The International Intellectual



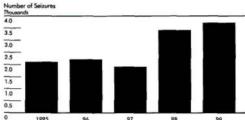
Yearly estimated domestic values of IPR seizures

Overall Total Values (IPR)
Million US \$



Yearly seizures

1995



97

98

99

96 Data for fiscal years provided by US Customs Service.

DATE: JAN 2001

Property Alliance estimated that, in 1998, trade losses suffered by US-based industries due to copyright violations totaled nearly \$12.4 billion, with losses to the motion picture industry of \$1.7 billion, the sound recording and music publishing industry at \$1.7 billion, the business software industry at nearly \$4.6 billion, the entertainment software industry at \$3.8 billion, and the book publishing industry at \$6.85 million. In 1996, law enforcement mids around the world resulted in the seizure of nearly \$1.7 million unauthorized copies of motion picture videocassettes, according to the Motion Picture Association; also seized were more than 25,000 VCRs with an estimated production capacity of almost 33 million pirate videos per year.

- Globally, one in every three compact discs (CDs) sold is a counterfeit copy, according to an estimate published in 1998. Data provided by the International Federation of the Phonographic Industry indicate that, in 1999, worldwide sales of pirated sound recordings totaled more than \$4 billion.
- The situation is as bad for computer software. According to current estimates by the Business Software Alliance, stolen software costs the industry \$12 billion globally and topped \$59 billion during the last five years. The average global piracy rate for software is 38 percent of total sales, with a US rate of about 25 percent. In 1997, Global Software Piracy Report estimated that 225 of the 523 new business software applications sold worldwide in 1996 were pirated copies.

Trademark violations include the counterfeiting of certain products and trademark goods. According to current estimates by the International Chamber of Commerce (ICC), counterfeit trademarked products account for approximately 8 percent of world trade—roughly \$200 billion annually. A recent survey of 10 leading apparel and footwear companies by the International Trademark Association indicated annual losses of nearly \$2 billion. Online counterfeit sales may exceed \$25 billion annually worldwide, according to ICC estimates.

In 1999, US Customs seized a record \$98.5 million in counterfeit imported merchandise, an increase of \$22 million during the previous year. Record media including audiocassettes, videocassettes, and CDs computer parts, sunglasses, and clothing were the commodities most commonly seized.

Patent violations involve the illegal manufacture of products using production processes, designs, or materials that are protected by patents giving the holder the right to exclude others from making, using, or selling an invention for a specified period of time. The 1995 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) requires that members of the World Trade Organization protect most inventions for a period of 20 years and that their domestic laws permit effective action against patent infringement.

 The Pharmaceutical Research and Manufacturers Association estimates that the pharmaceutical industry loses more than \$2 billion annually due to counterfeit medications sold on the open market. US nongeneric pharmaceutical sales totaled \$11.0.8 billion worldwide in 1997; estimated sales for 1998 were \$12.4.6 billion.

Besides significant business losses, IPR crime costs the US Government tax revenue and reduces potential jobs available to US citizens. The International Anti-Counterfeiting Coalition (IACC) estimated in 1998 that product and software counterfeiting costs the United States more than \$200 billion per year in lost sales, jobs, and tax revenues. The US Customs Service has estimated that foreign counterfeiting of US products has caused the loss of 750,000 jobs in the United States.

IPR crimes threaten consumer interests in the United States and elsewhere when counterfeit products are reproduced using bogus or inferior materials and poor quality controls that can affect public safety and health. Since 1990, US authorities have identified or seized nonconforming parts in US-produced automobiles and commercial airplanes and substandard materials used in household products and consumables such as infant formula and pharmaceuticals. The World Health Organization estimated in 1997 that at least 7 percent of the medicines sold world-wide are counterfeit products. US authorities have confiscated misbranded and counterfeit pharmaceuticals, including birth control pills and AIDS, heart, diabetes, cancer, and diet medications.

Global Dimensions

IPR violations are a global phenomenon. Most countries have brought laws protecting intellectual property rights up to international standards, but few are devoting the political or budgetary support necessary to enforce the laws. Intellectual property violations are flourishing because of ineffective laws, weak enforcement, inadequate resources devoted to investigations and prosecutions, corrupt government officials, and uninformed or inadequately trained law enforcement officers. In many of the countries that are major IPR violators, the government turns a blind eye to the activity in the interest of boosting its industries' competitiveness in the international marketplace.

- East and Southeast Asia are primary regions of IPR violations that cause significant losses to US businesses. China and Hong Kong harbor major duplicators of Western toys and clothing, while firms in Malaysia, Singapore, and Talwam copy US audio, video, and software products. According to the US Customs Service, 56 percent of US IPR seizures (mostly music CDs, computer software packages, and movies) in the first half of 1999 were from China and Talwan.
- In Eastern Europe, Ukraine has emerged as the leading producer of illegal optical disc pirated products, exporting pirated CDs for distribution throughout the world. Most of the NIS in the former Soviet Union are improving IPR laws for their admission to the World Trade Organization, but implementation and enforcement are uncertain.
- Israel's substantive laws remain deficient under the 1995 TRIPS Agreement, and it remains a key distribution hub in a regional network for pirated optical media products that extends into Russia and Eastern Europe.

 Latin America is the third-largest market for illegal duplication of CDs, videos, and cassettes, according to the International Intellectual Property Alliance.
 Illegal production of these products is centered in Brazil and Argentina, whose governments have toughened their IPR laws but nonetheless are resisting further IPR improvements. Paraguay continues to be a regional center for pirated goods, especially optical media, and serves as a transshipment point for large volumes of IPR-infringing products from Asia to the larger markets bordering Paraguay, particularly Brazil.

Although many IPR crimes are committed by ostensibly legitimate foreign manufacturing, business, and import/export enterprises to enhance their competitiveness, criminal organizations are becoming common players in all stages of IPR crime, from manufacture to distribution. Product piracy and counterfeiting are attractive to criminal organizations because of the absence of strong criminal counterfeiting laws and the potential for large profits in the counterfeit goods market. Moreover, some criminal and terrorist organizations use the proceeds from producing and selling counterfeit brand name consumer goods to fund other types of criminal activity, both in the United States and elsewhere.

 In New York City, ethnic Chinese crime syndicates are increasingly counterfeiting consumer products as a source of tax-free income. The Vietnamese gang "Born to Kill" reportedly relies on the sale of counterfeit Rolex and Cartier watches to fund gang activities. The group's founder has claimed earnings exceeding \$35 million from counterfeit product sales.

- In 1995, law enforcement officials in Los Angeles discovered several Chinese criminal groups including the Wah Ching, the Big Circle Boys, and the Four Seas triad—engaged in counterfeiting floppy discs and CD-ROMs. Asset seizures totaled more than \$17 million in illicit products and manufacturing equipment, plastic explosives, TNT, and frearms.
- Past press reporting indicated that the Provisional Irish Republican Army funded some of its terrorist activities through the sale of counterfeit perfumes, veterinary products, home videos, computer software, and pharmaceuticals.

Foreign Economic Espionage

The stealing of trade secrets from the US Government and from US businesses through economic espionage, in addition to industrial theft, is a growing threat to US global economic competitiveness. These activities are typically carried out by foreign governments, intelligence agencies, or industries to illicitly acquire sensitive or restricted information related to critical technologies, trade, finance, or corporate strategy. The United States has enacted the Economic Espionage Act of 1996 to criminalize both state-sponsored and commercial theft of trade secrets, but few other countries have similar laws. Indeed, collecting "business intelligence"—including by means considered foreign economic espionage—is a commonly accepted business practice in many countries.

- Foreign companies and governments routinely take advantage of technological advances in global communications, such as the Internet and digital communications, that have increased opportunities for industrial theft and the ease of information transfers.
- The potential losses to all US industry resulting from economic espionage were estimated to be about \$300 billion, according to a 2000 estimate by the American Society for Industrial Security, which conducts a comprehensive survey of industrial theft. This figure is three times what it was a few years ago.

Some foreign governments engage in economic espionage to acquire US trade secrets involving sophisticated technologies with potential military applications or to help enhance the global competitiveness of their commercial industries: Economic espionage supporting commercial industries is directed against corporate strategies, marketing plans, or bidding strategies of US businesses or US Government positions in bilateral or multilateral trade negotiations.

Foreign Corrupt Business Practices

Foreign corrupt business practices cost US firms billions of dollars each year in lost contracts. While the United States banned bribery of foreign government officials more than 20 years ago with the Foreign Corrupt Practices Act, other industrialized countries continue to permit overseas bribery, and some still allow tax deductions for such payments. However, bribery of government officials is against the law in virtually every country where it might occur.

Foreign firms often use bribes to help win international contracts. About half of the known bribes in the last five years were for defense contracts, with the other offers directed at major purchases by governments and parastatal organizations for telecommunications, infrastructure, energy, and transportation projects. The actual extent of the practice is probably much larger than available evidence indicates. Procurement corruption is common in virtually all parts of the developing world in Asia, Africa, and Latin America, as well as parts of Europe.

Global Implications

Corrupt business practices have significant costs for the governments that allow them. Governments that regularly allow bribery may ultimately undermine legitimate business activity, creating disincentives for US and other foreign firms to invest in their countries. Domestic companies that are allowed to use bribes to exclude foreign competitors may create undeserved monopolies that deter healthy economic growth and development. Bribery also contributes to poverty and instability in developing countries by undermining the legitimacy of state structures and wasting government resources.

Bribes related to government or parastatal contracts promote official corruption—including at the highest political levels—which adversely affects internal government operations and fosters negative foreign perceptions of such governments. In recent years, government leaders in South Korea, Pakistan, India, Greece, and elsewhere have become enmeshed in procurement corruption scandals. Bribe recipients are vulnerable to exposure in countries with alternating political parties, a free press, or independent judicial authorities.

Although international initiatives are under way to limit international bribery, effective curbs may be years away. In December 1997, member states of the Organization for Economic Cooperation and Development (OECD)—a group of the major industrialized countries—signed an international convention obliging them to pass laws comparable to the US Foreign Corruet Practices Act.

- The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions does not directly address the once-common practice of permitting businesses to deduct bribes paid to foreign officials from their income taxes, but the OECD has recommended that all member states act to eliminate the tax deductibility of bribes. Most member countries have begun to implement such a change.
- Effective enforcement of laws against foreign commercial bribery will remain a longer term goal. To date, no country other than the United States is known to have prosecuted anyone for violation of a law passed to implement the OBCD convention.

The implementing laws of many countries for the OGD antitivitiery convention—which had been ratified by 21 of the 34 signatory countries as of July 2000—may take years of negotiation and further legislative action to finalize. The Inter-American Convention Against Corruption, which entered into force in 1998 and which the United States ratified in September 2000, and the Criminal Law Convention Against Corruption of the Council of Europe, which the United States signed in October 101 to 101 to

state parties to pass laws against the bribery of foreign public officials in business transactions. In addition, multilateral lending institutions such as the World Bank and the International Monetary Fund are making efforts to combat corruption by addressing it in the context of their lending programs and by supporting governmental anticorruption efforts.

Counterfeiting

US dollars are the most commonly counterfeited currency in the world because they are the currency of choice worldwide. International criminals produce, distribute, and use counterfeit US money for profit, to make illicit transactions, to finance illegal operations, and to promote illicit activities. Profits for criminal groups placing counterfeit US money into circulation are close to 40 cents per dollar, according to the US Secret Service. Moreover, selling counterfeit currency can provide criminal organizations with capital to invest in other illicit activities, such as the purchase and distribution of illegal wearons and narcotics.

International counterfeiting schemes also include reproducing financial instruments such as commercial checks, traveler's checks, and money orders. Fictitious securities and negotiable instruments are increasingly being used by international criminal enterprises to defraud governments, individuals, corporations, and financial institutions. Criminals have used bogus instruments to obtain government benefits, to underwrite loans, to serve as insurance collateral, and to defraud individual investors, pension funds, and retirement accounts.

About half of counterfeit US currency is produced abroad, where many of the illicit financial transactions by terrorist, drug trafficking, and organized crime groups take place. The US Federal Reserve estimates that about \$570 billion of genuine US currency is in circulation worldwide, of which two-thirds circulates outside the United States.

About one-third of US counterfeit currency distributed in the United States in the past three years originated in Colombia, according to US Secret Service data. Lax counterfeiting laws and established drugtrafficking networks in Colombia are key factors that facilitate the production and distribution of counterfeit US dollars.



	1391	1500	1994	1992
Passed or				2.2
Seized in	90			2013
Passed or				
Seized Abroad				133,4
TOTAL				

Amount of counterfeit US currency identified as having been passed at retail level or seized by law enforcement,

Source: US Secret Service.

The circulation of counterfeit US currency is growing worldwide despite vigorous anticounterfeiting measures in the United States and overseas. This increase is due in part to the improved quality and modernization of reproduction equipment. Advanced design, copying, and publishing technology has enhanced production of high-quality counterfeit US currency and other financial instruments. Counterfeit US currency produced with advanced reprographic capabilities and distributed in the United States has increased from less than 1 percent in 1995 to 50 percent in 2000.

Continued improvements in counterfeiting technology would enhance the quality and increase the quantity of counterfeit US currency in circulation, making it more difficult for law enforcement and financial institutions to identify false currency.

Counterfeit currency and financial instruments are also a problem for other governments. Foreign countries lacking adequate government oversight and enforcement of counterfeiting regulations are often susceptible to domestic production and distribution of counterfeit currency. Counterfeiters are also able to take advantage of countries with corrupt, poorly regulated, or poorly equipped financial institutions.

Threats to US Interests

While, at present, the production and circulation of counterfeit US currency present a minimal threat to the US economy, technological advances in counterfeiting and the extension of counterfeiting knowledge to more criminal groups may, in some circumstances, undermine US economic interests. US interests are most threatened by the use of counterfeit currency by some criminal organizations-including terrorist groups-to expand and finance activities and purchases that such groups could otherwise not afford. Some organized crime groups, drug traffickers, and terrorist organizations appear to be involved in producing and distributing counterfeit currency to reap profits and to finance other illegal activities. The international expansion of these criminal organizations has helped increase distribution of counterfeit currency.

 Some Italian and Russian crime groups may be involved in printing counterfeit US dollars, possibly to purchase narcotics, military weapons, and other contraband.

Internationally isolated states of concern, like North Korea and Iran, that have in the past resorted to illegal means to finance their operations may be involved in printing or distributing counterfeit US currency.

Financial Fraud

Wide-ranging and complex financial fraud schemes by international criminal organizations are stealing billions of dollars annually from US citizens, businesses, and government entitlement programs. Financial fraud crimes have become more prevalent in recent years as greater amounts of personal and corporate financial information are made available through computer technology and access devices, such as credit cards, debit cards, and smart cards. Worldwide economic and financial systems are continuing to evolve toward a cashless society; plastic cards containing digitized financial information are increasingly being used to effect commerce. In addition, Internet-related financial crime is of growing international concern. Criminal organizations-including Russian, Nigerian, and Asian groups-have taken advantage of these developments to become involved in a wide range of sophisticated fraud schemes.

Financial Fraud Against Individuals

US citizens are direct targets of many fraud schemes originating outside the United States. These include soliciting money for ostensibly legitimate charities or overseas investment or business opportunities. In addition, the accessibility of personal financial information and the ability to gain access to financial accounts, through stolen bank cards or fraudulent means, allow criminals to steal personal savings or use personal financial assets as collateral for their own investments or transactions such as setting up illicit front companies.

· Advance fee frauds committed largely by Nigerian criminal syndicates are among the most lucrative financial crimes targeting individuals and businesses worldwide. Criminals purporting to be officials of their government, banking system, or oil companies mail or fax letters to individuals and businesses in the United States that entice victims with the opportunity to take part in million-dollar windfalls, provided up-front fees are paid for necessary expenses such as bribes, taxes, and legal fees. In 1999, US victims reported losses of several hundred million dollars to advance fee frauds, according to US law enforcement. The Secret Service has reported receiving approximately 100 calls and 300 to 500 pieces of correspondence per day from potential victims.

To a limited extent, international criminals have also used Internet banking to target individuals in financial fraud schemes. The 1997 collapse of the Antiguabased European Union Bank (EUB), whose Russian owners fled Antigua with perhaps as much as \$10 million in depositors' funds, highlights the threat posed to individuals from financial frauds facilitated by evolving Internet-enabled banking services. The first offshore bank to operate exclusively on the Internet, EUB actively solicited depositors over the Internet with offers of complete privacy, confidentiality, and security. The bank's collapse was precipitated by substantial loans to shell companies owned by EUB shareholders.

 Within a one-month period, EUB's advertisement was accessed 7 million times, which led to 10,000 email messages from potential clients and almost 150 activated accounts for the bank, according to press reporting. The EUB Web site was so successful, it was the recipient of a 1997 "Top Business Site" award by ComFind, an Internet business directory.

Financial Fraud Against Businesses

The victimization of US businesses and financial institutions through sophisticated financial frund schemes results in substantial lost revenue, as well as lest tangible but nonetheless real lost opportunities and jobs. International criminals are able to use computer technology and access devices to manipulate accounts and direct the illicit transfer of funds. The ability to rapidly move funds between distant banks or financial institutions hinders law enforcement's ability to track financial transactions and allows ophisticated criminal organizations to mount complex financial fraud schemes.

 In 1996, the Association of Certified Fraud Examiners estimated financial losses from fraud perpetrated by domestic and international criminals in the United States at more than \$200 billion per year.

Frauds involving credit, debit, and smart cards and communications systems that transfer financial data are a growing problem. International criminals are exploiting electronic payment technology through false purchases and by producing counterfic eards for the commercial marketplace, according to industry and law enforcement reporting. The huge profits and relatively minor penalties associated with the crime make these kinds of financial frauds attractive to criminal groups that have the capability to pull them off.

 According to current industry estimates, fraudulent credit cards cost the US banking industry at least \$2 billion annually; losses worldwide are estimated to be an additional \$1 billion each year.

Industry experts indicate that organized crime groups play a significant role in credit card frauds and other schemes to defraud banks and financial institutions. Nigerian crime groups capitalize on their ability to produce fraudulent identities and to suborn kee employees of banks and companies in order to steal customer credit card data. Chinese and Japanese criminal groups are adept at producing forged credit cards. Russian criminal syndicates are using their access to computers and technological expertise to access account data.

While South America and Mexico are emerging as centers for producing counterfeit credit cards in the Western Hemisphere, Chinese crime groups with operations in major commercial centers in East Asia (particularly Hong Kong) and North America are most notorious for fraudulent credit card activity.

 A crackdown on counterfeit credit card manufacturing in southern China resulted in the seizure of thousands of fraudulent cards, uncut blank credit cards, magnetic strips, issuer holograms, encoders, laptop computers, and extensive manufacturing equipment. Law enforcement investigations revealed that the scheme stretched to Hong Kong, Macau, Tiawan, Bangkok, Canada, Honolulu, and Buffalo.

Financial fraud schemes are also directed against the insurance industry, government entitlement programs, and government tax revenues. Medical fraud scams—including staged accidents and false billing to insurance companies—are a particularly lucrative source of income. Fraudulent claims from theft, property damage, and automobile accidents cost insurance companies millions of dollars each year. The federal medicare and welfare systems suffer substantial losses due to fraudulent claims for benefits, including false medical billings and false identities, many of which victimize real intended beneficiaries.

 Nigerian and Russian criminal groups have been implicated in these kinds of financial fraud crimes.
 Russian crime groups in the United States also orchestrate computer, telecommunications, and consumer goods contract fraud.



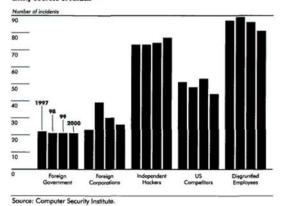
CSI/FBI 2000 Computer Crime and Security Survey

How Big Is the Problem?

2000 Computer Security Institute/FBI Study

- 70-percent of companies polled reported computer security breaches within the last 12 months.
- Total financial losses from 273 organizations was \$265.5 million.

Likely Sources of Attack



High-Tech Crime

High-tech crimes targeting computer networks are becoming an increasing law enforcement and national security problem because of the growing reliance in the United States of government entities, public utilities, industries, businesses, and financial institutions on electronic data and information storage, retrieval, and transmission. Increasingly, other countries around the world face the same vulnerability. The creation of complex computer networks on which

many government, public, private, and financial services depend has created opportunities for illicit access, disruption, and destruction of information by a wide range of backers. Although most computer attacks are conducted by disgruntled employees and independent hackers, according to US law enforcement information, the threat from foreign intelligence services and foreign corporate competitors is significant for US national security interests. Moreover, international terrorist and criminal organizations have increasing capability to penetrate and exploit computer-based information and data systems.

 Illegal penetration of computer systems provides criminals the ability to access and manipulate personal, financial, commercial, and government data.
 The introduction of computer viruses can compromise data system integrity. Hostile hackers whether individuals, industrial spies, foreign governments, terrorist or criminal organizations—could potentially disrupt critical public-sector assets.

The greater dependence on computer systems for daily business and administrative functions—and the increasing interconnections between computer networks—has increased both the vulnerability and potential costs of systems penetration. US communications and information industries have developed the most technologically advanced systems and networks in the world. Many critical public infrastructure industries—including power and energy, telecommunications, and transportation systems—are operated or managed by computer networks. According to the US Customs Service, all major international industries, businesses, and financial institutions rely on interconnected computer systems for commercial and financial transactions to remain competitive.

 Attacks on computer and information systems of US corporations, financial institutions, universities, and government agencies through unauthorized access by employees and external system penetration ranged from denial of service and sabotage to financial fraud and theft of proprietary information, according to surveys jointly conducted by the FBI and Computer Security Institute. Illegal intrusion and exploitation of computer networks in the United States have sizably increased over the last several years, causing millions of dollars in losses to US businesses and potentially threatening the reliability of public services.

- According to the joint 2000 FBI-Computer Security Institute survey of security practitioners in US corporations, financial institutions, universities, and government agencies, 273 of the respondents cited financial losses of \$265.5 million from computer crime—almost double the reported losses of \$136.8 million in 1998.
- The number of US businesses reporting computer intrusions through Internet connections rose from 37 percent in 1996 to 70 percent in 1998, according to the joint survey.
- A significant percentage of the information needed to carry out essential government functions is processed at some point by information systems in the nonfederal sector of the national information infrastructure.

Criminals Exploiting High Technology

As worldwide dependence on technology increases, high-tech crime is becoming an increasingly attractive source of revenue for organized crime groups, as well as an attractive option for them to make commercial and financial transactions that support their criminal activities. With little of the risks and penalties associated with more traditional criminal activity, high-tech crime allows criminals to operate in the relative security of computer networks, often beyond the reach of law enforcement where the crime was committed.

International criminals, including members of traditional organized crime groups, are increasingly computer-literate, enabling them to use cutting-edge technologies for illicit gain. International criminals rely on publicly available sources to obtain information on system vulnerabilities. E-mail malling lists routinely distribute vulnerability information and software that can be used to exploit computer systems. In addition, vulnerabilities are publicly exposed in books, magazine and newspaper articles, electronic bulletin board messages, and a growing list of Web sites that are targeted at informing a wide-ranging global network of potential backers about the latest methodology for staging computer attacks.

 Criminal groups may also exploit businesses and government agencies using programmers, many of whom are lesser paid foreigners, to make software fixes or write new programs to gain access to computer systems and the information they contain.
 Press reports indicate that a Russian-speaking crime group in the United States recruited unemployed programmers in Russia to back into other syndicates' computer systems, embezzle funds, and create programs to protect its funds in US banks.

International criminals are using computers to support a wide range of criminal activity, including as an innovative alternative means to commit many traditional crimes. The use of computer networks allows criminals to more securely and efficiently ochestrate and implement crimes without regard to national borders. Drug traffickers, for example, are using encrypted email and the Internet to avoid detection and monitoring of their communications over normal telephone and communications channels.

The Internet has also become the primary means used by international child pomography rings to disseminate their material worldwide. International child pornography rings are operating in dozens of countries, peddling their Illicit wares through the Internet and other global distribution networks. Modern technology allows these child pornographers to store vast quantities of digital images on small portuble computers easily smuggled into the United States and elsewhere.

Moreover, criminal commercial and financial transactions through computers occur amidst countless legitimate public, business, and personal uses of computer networks, making them especially difficult to identify. Transactions involving technology or components for weapons of mass destruction or embargoed items under US or international sanctions are being done through computers. Virtually any commodity, including weapons of mass destruction and their component parts and delivery systems, is being offered for international sale on Internet sites.

 US Customs investigations show that many Internet sellers of contraband materials openly advertise that they have been in operation for many years without being caught by law enforcement. In December 1999, there were about 100 ongoing US Customs investigations involving the sale of counterfeit goods over the Internet.

Computers are also exploited by international criminals to facilitate a wide range of economic crime particularly targeting US commercial interests. Hightech financial fraud through illicit access to credit card numbers and commercial accounts has the potential to cause serious losses for US businesses conducting electronic commerce over the Internet.

- According to a joint FB1-Computer Security Institute survey in 1998, 241 US business respondents reported 51.12 million in losses caused by computer financial frauds. Telecommunications fraud from computer attacks cost these companies an additional 517.2 million in losses.
- In March 1999, hackers pleaded guilty to breaking into US phone companies for calling card numbers that eventually made their way to organized crime syndicates in Italy. US law enforcement information indicates that this high-tech theft cost the US phone companies an estimated S2 million.

Intellectual property rights violations through the penetration of computer networks are also an increasing threat to US businesses. US businesses responding in the 1998 survey reported losses of \$33.5 million in theft of proprietary information from computer attacks.

International criminals may be using computer backing and related methods for financial gain. Industry and law enforcement reporting indicates that hightech criminals are using advances in technology to target banks and other financial institutions. The anonymity and speed of electronic transactions may

encourage criminal exploitation of these technologies. While US and many Western and Asian banks and financial institutions maintain adequate security safe-guards to prevent outside penetration of computer-based data financial transaction systems, some have outdated or lax security practices that high-tech criminals are able to exploit.

- In October 2000, according to press reports, Italian authorities dismanded a Sictilian Mafia-led crime group that was planning to steal as much as \$900 million in European Union aid earmarked for Sicily, Employing corrupt officials from the targeted bank and a telecommunications firm, the crime syndicate broke into the bank's computer network, created a virtual banking site linked to the interbank payments network, and was able to divert \$115 million of the EU aid to Mafia-controlled bank accounts in Italy and abroad before they were discovered.
- In China, a computer hacker was convicted in November 1999 of breaking into the Shanghai Securities Exchange, where he changed transaction records that cost two Chinese companies more than \$300,000, according to Chinese press reports.
- In South Africa in November 1999, an unidentified crime syndicate stole hundreds of thousands of dollars from local banks by using the Internet and bankby-telephone services to hack into financial institutions, according to press reports.
- In 1994, individuals in St. Petersburg, Russia aided by insider access—attempted to steal more than \$10 million from a US bank by making approximately 40 wire transfers to accounts around the world. Members of the gang have since been arrested in several countries, and most of the stolen funds have been recovered.

Money Laundering

Money laundering allows criminals to hide and legitimize illicit proceeds derived from criminal activities. Money laundering hinders efforts by regulatory and law enforcement agencies to identify the source of illegal proceeds, trace the funds to specific criminal activities, and confiscate criminals' financial assets. Moreover, the successful laundering of illicit funds helps to support and finance future criminal activity, including any of the international crimes identified in this assessment. While international law enforcement, intelligence, and financial experts agree that the amount of illegal proceeds in the world is huge and growing, there is little analytical work supporting most estimates of money laundering. A few estimates have been attempted, but no consensus view has emerged about the magnitude of money laundering on a global, regional, or national scale. 3

 According to one recent estimate, worldwide money-laundering activity is roughly \$1 trillion per year, with \$300-500 billion of that representing laundering related to drug trafficking. A former Managing Director of the International Monetary Pund (IMF) has estimated worldwide money laundering at 2 to 5 percent of the world's gross domestic product—some \$800 billion at the low end of the range and perhaps as high as \$2 trillion.

The infrastructure used by international crime groups to launder illicit proceeds—which must be placed, layered, and integrated to be "legitimized" in the legal economy—is extensive and worldwide. There are many methods for laundering money. Among those favored by criminal organizations is to establish seemingly legitimate businesses as fronts for illegal activity and money laundering. These tend to be cash-based businesses—such as hotels, casinos, restaurants, financial service firms, construction companies, and travel agencies—whose ostensibly legitimate operations involve substantial cash-flow. This makes it difficult for law enforcement agencies to identify illegal

² Them is uncertainty about the feasibility of measuring the amount of money laundering because of the difficulty in obtaining consistent data. Money laundering is a crime in the United States, but is still not a distinct criminal offense in many other countries, especially when the laundering is not related to Illicit drug proceeds. Even where money laundering is a distinct crime, estimates are Even where money laundering is a distinct crime, estimates are just of an experimental countries.

proceeds. Front companies enable criminals to combine legitimate and illicit funds in the business, in addition to providing a plausible source of wealth to deny involvement in criminal activity.

The international banking and financial systems are routinely used to legitimize and transfer criminal proceeds. Huge sums of money are laundered in the world's largest financial markets—such as Hong Kong, Japan, Germany, the United Kingdom, and the United States—even though extensive legislation and enforcement measures make it more difficult and risky to conduct illicit financial transactions in these jurisdictions. Launderers also use banks located in scerecy havens to hide illicit funds. In some cases, money launderers may recruit bank employees to conduct money-laundering transactions on behalf of the criminal organization. Some organized crime groups have sought to gain ownership of banks to facilitate their own money-laundering activity.

Several factors contribute to a country's vulnerability to money laundering: a lack of adequate legislation or appropriate enforcement to address the problem, bank secrecy laws, weak or corrupt financial institutions, and inadequate or ineffective regulatory supervision of the financial sector.

- In Latin America, money-laundering investigations are hamstrung by bank secrecy laws, lack of trained personnel, inadequate legislation, or corruption. Weak enforcement of existing legislation in some countries does little to discourage illicit financial activities. In addition, many countries have only drug-related money-laundering laws, which limit the government's ability to prosecute the laundering of proceeds from other crimes.
- In Russia and the NIS, which are transitioning to free market economies and developing their financial sectors, organized crime groups have capitalized on industry privatization programs to gain a foothold in the legitimate economy. Weak banking regulations, lax law enforcement, and a general lack of money-laundering controls provide a favorable environment for illicit financial activity.

Offshore hanking centers—such as Liechtenstein.
 The Bahamas, Nauru, and Lebanon—typically offer bank and corporate secrecy, low tax rates, ease of corporate formation, and low incorporation fees.
 These provisions can provide incentives for criminals to conduct illicit financial activities in these countries. Moreover, smaller, emerging offshore havens, typically in the South Pacific, lack money-laundering legislation and are less regulated than some established offshore financial centers.

In Southeast and Southwest Asia and the Middle East, purallel informal banking systems—Known primarily as the hawala, hundi, or hui kuan—offer an alternative for laundering funds outside the formal banking system. These traditional nonbanking systems are increasingly being used by criminals, drug traffickers, and terrorist organizations operating throughout the world to launder and move illicit funds across long distances because they facilitate the rapid and costeffective transfer of money and leave virtually no useful paper trail for law enforcement investigators or financial regulators.

 The multinational Financial Action Task Force (FATP), established at the G-7 summit in 1989 to examine measures to combat money laundering, has noted the significant role that alternative remittance systems are playing to facilitate money laundering worldwide.

The FATF has also observed an increase in illicit funds being laundered through nonbank financial institutions, such as currency exchange houses, money remitters, and gaming establishments. These organizations tend to be less regulated than banking organizations and are often used to place money into the legitimate economy.

- . The Colombian black-market peso exchange is a primary money-laundering system used by Colombian drug traffickers, according to the US Treasury Department. This laundering system works by traffickers selling their US-dollar drug proceeds at a discount to brokers who credit them with an equivalent amount of pesos in Colombian banks. The dollars in the United States are then sold to Colombian businessmen at an exchange rate better than the official Colombian rate, who then use these funds to finance the purchase and export of dollar-denominated goods from the United States. In this way, the dollars that began as drug proceeds are laundered through a process that effectively circumvents both US and Colombian currency reporting requirements: Colombian drug profits in the United States, in effect, are repatriated in the form of trade goods. US law enforcement estimates that the black-market peso exchange may be responsible for laundering up to \$5 billion in drug proceeds annually.
- Colombian, Mexican, and Dominican drug cartels are suspected of using certain money remitters to launder drug proceeds. These businesses arrange payments to recipients in exchange for a commission, usually up to 10 percent of the transaction value. In the United States, money remitters are now required to report suspicious activity, file currency transactions reports for transfers exceeding \$10,000, and register with the federal government. They will soon be required to conduct enhanced recordiceping and reporting for certain high-risk transactions.
- Casinos and other forms of gaming establishments are popular for money laundering because of the large, daily volumes of cash transactions that help hide money-laundering activity. Furthermore, launderers can take advantage of the increasingly sophisticated financial services offered by gaming establishments. Organized crime groups and narcoriics traffickers are opening new casinos and other gaming establishments or acquiring existing ones. In the United States, reporting of suspicious activity by casinos will soon be mandatory.

Securities brokers and dealers and money service businesses, such as check cashers and money order sellers, are also vulnerable to money laundering. There are an estimated 200,000 money service businesses in the United States. Like money remitters, these businesses will soon be required to register with the federal government and to report suspicious transactions. Within three years, US regulations will require securities brokers and dealers to report suspicious activity, which they may now do voluntarily.

Threats From Money Laundering to World Economies

The International Monetary Fund has identified a number of adverse macroeconomic effects resulting from money laundering, such as greater volatility in foreign exchange markets and interest rates and distortions in market expectations. While current moneylaundering activity in the United States has not undermined economic stability, it has hindered US Government efforts to collect taxes and resulted in greater government expenditures in regulating the banking sector, financial markets, and the business environment.

In developing economies, the accumulation and movement of large quantities of illicit funds can destabilize the economy. Investments by criminal groups in licit business enterprises can scare away honest investors and place companies owned by legitimate businessmen at a comparative disadvantage. Widespread money laundering can undermine the solvency and credibility of banks and other financial institutions and erode the public's trust in the financial system. It can also drive away potential investors and place legal investors at risk. Small economies are also vulnerable to destabilization from sophisticated fraud schemes that are attracted to large amounts of free-flowing cash. Finally, developing economies are particularly vulnerable to attempts by money launderers to corrupt institutions and key individuals with large amounts of cash, potentially undermining political stability.

 Widespread money laundering and fraudulent pyramid investment schemes orchestrated by Italian and Albanian criminal groups in the mid-1990s led to significant political instability in Albania, the effects of which are still being felt. Efforts by some countries, such as those in the former Soviet Bloc, to develop modern banking systems can be greatly inhibited by criminal involvement in their financial sectors. Criminal infiltration into the banking sector can impode government efforts to reform the banking industry. Moreover, criminal organizations with control or significant influence over domestic banks are not likely to use sound banking practices. Rather, criminals may use bank capital to finance illicit activities, acquire businesses, or make bad loans, raising the risk of bank insolvency and disruption of domestic financial markets.

Increasing international attention to money laundering has led many countries to implement money-laundering legislation and other preventative measures. In addition, international standards are being established to increase banking transparency and to reduce bank secrecy and other processes that disguise asset ownership.

 Since 1994, 53 countries have implemented legislation or regulations requiring banks to maintain records of large currency transactions. During the same time period, the number of countries requiring banks to maintain uniform financial records grew from 25 to 82.

- In addition, more countries are beginning to establish controls over nonbank financial institutions.
 Currently, 47 countries require these institutions to meet the same customer identification standards and reporting requirements required of domestic banks.
- In June 2000, the FATF publicly named 15 jurisdictions—The Bahamas, Caymna Islands, Cook Islands, Dominica, Israel, Lebanon, Liechtenstein, Marshall Islands, Nauru, Niue, Panama, the Philippines, Russia, St. Kitts and Nevis, and St. Vincent and the Grenadines—as being noncooperative and deficient in their anti-money-laundering regulatory systems and practices. In July 2000, the US Government issued advisories to US financial institutions noting that the anti-money-laundering regimes in these jurisdictions were deficient. Other members of the G-7 issued similar financial advisories.

Chapter III

Worldwide Areas of International Criminal Activity

The end of the Cold War and globalization of business and travel have given international criminals unprecedented freedom of movement, making it easier for them to cross borders and to expand the range and scope of their operations. As a result, virtually every region or country in the world has seen an increase in international criminal activity-as either a source or transit zone for illegal contraband or products, a venue for money laundering or illicit financial transactions, or a base of operations for criminal organizations with global networks. Many regions or countries serve all three purposes for international criminal operations. Besides making the law enforcement and security challenges for the United States more complex, the global spread of international crime threatens vital US interests at home and abroad.

This chapter addresses the world's major regions and countries of international criminal activity that threaten Americans, US business and economic interests, and US security interests. Each regional or country overview focuses on three key issues:

- The dynamic forces—especially relating to political and economic change or a greater role in the global economy—in different regions or countries that are helping to drive international criminal activity there and how crime groups are taking advantage of them.
- The impact of criminal activity and crime-related corruption on political and economic stability.
- The characteristics, criminal activities, and scope of operations of major organized crime threats originating in the different regions and countries.

Western Europe

Like the United States, the West European countries are both a lucrative target and an attractive operating environment for international criminals because of their relative wealth and modern financial, telecommunications, and transportation infrastructure. The well-to-do West European population rivals the United States as the most desirable market for drugs, as well as other contraband, and an arena for financial fraud schemes victimizing individuals, businesses, and government entitlement programs. The speed and efficiency of modern commercial and banking services available in West European cities make them particularly vulnerable to illicit financial transactionsincluding money laundering and arranging financing for illegal activities. The single-market reforms of the European Union (EU) under the Schengen Agreement that permit unfettered movement of goods, services, labor, and capital throughout most of Western Europe; sophisticated infrastructure for facilitating international trade; and tremendous volume of people and goods passing through commercial airports and seaports are exploited by international criminals to move drugs, arms, illegal aliens, and other contraband throughout Western Europe and to use EU gateways to reach every other region in the world.

Western Europe has long been popular for money laundering and illicit financial transactions because of its advanced economies and financial systems. Terrorist groups and states of concern use West European commercial and financial centers in efforts to evade international embargoes or to acquire proscribed technologies and materials for weapons of mass destruction. Most West European governments have changed, or are changing, their domestic laws to conform to FATF anti-money-laundering standards. Despite these recent legal changes and improved enforcement mechanisms, however, Western Europe remains a primary locale for money laundering by criminal organizations operating both inside and outside the EU because it offers numerous alternative channels through which to place and legitimize illicit proceeds.

EU members are facing an increasing threat from international drug traffickers and from illegal migrants, many of whom wind up employed by ethnic-based crime groups to make their livelihood. The size and profitability of the West European drug market are close to rivaling that of the United States. Turkish and Albanian criminal groups dominate wholesale distribution of Southwest Asian heroin in most of the EU countries, according to European law enforcement information. South American drug traffickers—working closely with Italian organized crime—have been developing a growing cocaine market since the early 1980s.

• The Netherlands' deepwater ports at Amsterdam and Rotterdam and Spain's extensive rocky coastline are primary entry points for drugs—particularly South American cocaline—entering Western Europe, according to analysis of seizure data and law enforcement information. According to Interpol, cocaine seizures in Europe have more than tripled in the last decade from 14.3 metric tons in 1990 to about 44 metric tons in 1990.

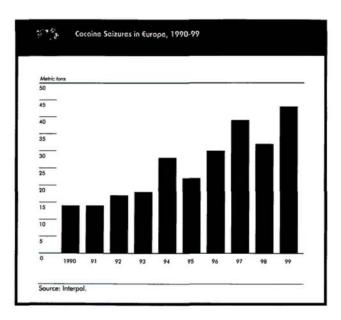
The EU countries are also a primary destination for illegal migrants, including women and children smuggled into the continent for prostitution and entertainment businesses controlled by organized crime.

Organized crime has flourished most in the poorer Mediterranean region of the continent. Relatively stagnant economic conditions and high unemployment in this region, compared to northern Europe. have helped to drive organized criminal activity. Organized criminal activity has thrived particularly in southern Italy and the Balkans, and along the traditional cross-Mediterranean and cross-Adriatic smuggling routes on historical trade arteries between Europe, North Africa, the Middle East, and Asia. Moreover, traditional cultural and societal emphases on familial ties have promoted group cohesiveness within criminal organizations. In southern Europe, particularly Italy, organizated crime groups have expanded their influence through political involvement.

Playing on these historical factors, organized crime remains deeply entrenched in Italy despite the impleementation of new antimafia laws and the arrests of several high-ranking crime bosses since 1990. Italian organized crime groups continue to have a significant impact on the economy. Through the companies they control, Italian organized crime groups have secured public works contracts worth billions of dollars. They have profited from cost overruns and kickbacks in fulfilling these contracts.

 According to Italian trade association estimates, Italian criminal organizations in 1997 earned more than \$74 billion from illicit activities as well as involvement in legitimate economic sectors, as compared to \$69 billion in 1993. The Italian trade association estimates that Italian organized crime groups have combined assets totaling \$200-225 billion.

Indigenous criminal organizations are less entrenched elsewhere in Western Europe, but foreign ethnic-based crime groups have established footholds in expatriate enclaves in most EU countries. Cultural and linguistic ties between the Iberian Peninsula and Latin America are exploited by South American drug traffickers who stimulate the demand for cocaine in Western Europe's more profitable market. Liberal immigration or refugee policies have led to large migrant populations in



many West European urban areas where criminal cells with ties to Turkey, Iran, the Balkan countries, North Africa, and other regions have taken root. These criminal groups are largely involved in contraband smuggling, including drugs and arms. Some—Turkish and ethnic Albanian crime groups, for example—rely on legal and illegal immigrant communities that maintain drug distribution networks in Western Europe.

Although Turkish criminal groups remain the primary source of supply, ethnic Albanian crime groups appear to have largely replaced the Turks as the principal distributors of Southwest Asian heroin to parts of Western Europe, according to press reports. They are also challenging Italian criminal syndicates for control of other rackets in West European countries.

The Political Dimension

Public perceptions in many EU countries blame foreign ethnic organized crime groups for high crime rates as well as other societal ills. The sometimes volatile anti-immigrant sentiment and support for nationalist parties in several countries are attributed in part to the role of foreign criminal groups in drug trafficking, gunrunning, financial frunds, and alien smuggling. Although Europeans historically have tended to take a liberal view toward drug use, viewing drug addiction as a medical and social problem, EU govcriments have become increasingly concerned about abuse trends and have taken a more aggressive stand toward narcotics trafficking.

 Heroin remains in general the most serious drug problem facing Western Europe; it is the drug most often cited in drug-related crime, deaths, demand for treatment, and HIV infection. The cocaine problem in Europe has been growing for the last decade, and EU data since 1995 suggest that cocaine has overtaken heroin as the most frequently used hard drug in Spain and France. Meanwhile, according to annual EU reports, the use of synthetic drugs—parricularly amphetamines and ecstasy—has increased markedly since 1992 in virtually all member countries, particularly among adolescents and mainstream vounce adults.

With the criminal threat they face having become more multidimensional in the last decade because of the collapse of Cold War barriers, the implementation of the Schengen Agreement, and the growing presence of Russian and ethnic Albanian criminal groups, the West European countries in general have increased their attention to the problem. Italy's aggressive law enforcement campaign targetting the Sicilian Mafia in the early 1990s that resulted in the arrests of several key Mafia bosses has weakened its power and influence. Other West European countries are more focused on foreign ethnic organized crime groups operating inside their borders.

 The United Kingdom and Italy are particularly concerned about Nigerian criminal groups; Italy, Germany, and several Nordic countries are concerned about the growing crime role of ethnic Albanian groups; and Russian criminal groups have attracted attention throughout Western Europe. Switzerland jailed Russian crime boss Sergey Mikhaylov, leader of the powerful Solntsevo syndicate, but failed to convict, in part because of the Russian Government's lack of cooperation in the criminal investigation. France has expelled a top Russian crime figure.

Greater awareness of the international criminal threat has increased anticrime cooperation within Western Europe. In the mid-1990s Europol was established for sharing information and to help stimulate law enforcement collaboration. Police cooperation among EU members against international criminal networks has been enhanced, particularly against groups involved in drug trafficking, financial frauds, and money laundering.

Recent scandals involving illicit financial transactions in Switzerland and Liechtenstein have focused attention on the criminal exploitation of West European banking centers. Switzerland-a former bank secrecy haven-has become significantly more active in combating money laundering in recent years, passing new money-laundering legislation in 1998 that set tighter standards for the banking sector and initiating a practice of alerting foreign governments to suspicious transactions in Switzerland. In Liechtenstein, press reports of money laundering by Russian organized crime groups have brought renewed attention to the need to reform its financial services sector. Since the early 1980s, there is evidence that major criminal organizations-including Latin American drug-trafficking groups, Italian organized crime, and Russian crime syndicates-have taken advantage of Liechtenstein's weak banking controls and strong tradition of banking secrecy to launder money and make other illicit financial transactions.

 As a result of its FATF listing as a noncooperative jurisdiction, Liechtenstein has taken several actions to try to remedy these defects.

Italian Organized Crime

Italy's largest criminal organizations—the Sicilian Mafia, Calabrian 'Ndrangheta, Neapolitan Camorra, and Puglian Sacra Corona Unita-were born and bred in rugged rural areas, where they engaged in local criminal rackets and were generally esteemed as protectors of local peasant interests. The defeat of Italian fascism in World War II allowed these groups to extend their influence into urban areas, which provided greater openings to the outside world. Many of Italy's banking, commercial, and port facilities fell under the influence or control of organized crime. In the last half century, Italian organized crime groups have become self-sustaining, multifaceted criminal organizations with considerable clout in Italy's political and economic systems. They have proven to be resilient and opportunistic, often emerging stronger from periodic government attempts to crack down on organized crime and taking advantage of new criminal opportunities.

 Italian criminal organizations share the characteristic of incorporating close-chiit crime families or clans. According to the FBI, the four major Italian organized crime groups compties >60 crime families and more than 21,000 members. The Sicilian Mafia is the oldest, most powerful, and most hierarchical of Italy's crime groups.

As Italian criminal organizations became more ruthless and concerned with accruing power and wealth. there was increasingly strong public support in Italy for a crackdown against organized crime. By largely abandoning their traditional "code of honor," which, for example, did not tolerate common crime or violence against women and children, the Sicilian Mafia in particular began forfeiting public acquiescence; unlike in the past, large numbers of Sicilians now publicly oppose the Mafia. Encouraged by strong public outery-including outrage over two particularly notorious Mafia assassinations of leading Italian anticrime prosecutors Falcone and Borsellino in 1992-authorities have mounted an aggressive campaign against organized crime. Aided by informants, Italian law enforcement authorities have made some significant arrests that have disrupted Italian criminal organizations.

- The January 1993 arrest of reputed Sicilian Mafia "boss of bosses" Salvatore Riina; the 1996 arrest of his heir—Giovani Brusca—who claimed responsibility for more than 100 murders, including setting off the bomb that killed Falcone; and a series of sweeping prosecutions and convictions in both Italy and the United States have weakened the power and influence of the Sicilian Mafia. The Camorra was hurt by the February 1993 arrest of one of its leaders, Rosetta Cutolo.
- In October 2000, Italian authorities captured Salvatore Genovese, one of the most wanted Sicilian Mafia leaders who had been a fugitive for seven years. Genovese is believed to have been the righthand man of Sicilian Mafia boss Bemardo Provenzano, who is also a fugitive. Despite being on the run, Genovese, before his arrest, continued to control public works contracts.

The testimony of informants indicates that Italian criminal organizations have responded by making organizational and operational adjustments, including restructuring into smaller compartmented cells, that have tightened security and allowed them to continue widespread international criminal activities.

International Connections

Italian organized crime groups have moved well beyond their home regions in southern Italy and are now firmly entrenched throughout Europe, in Central and South America, the Caribbean, Canada, and the United States, Expatriate Italian communities and established international criminal connections in these regions have given Italian organized crime groups the infrastructure and capability to move highly profitable contraband products-including drugs, arms, and cigarettes-and launder illicit proceeds on a global basis. They maintain legitimate business holdings worldwide that are often used as a cover for their criminal operations. Italian crime groups' longtime investments in real estate and entertainment enterprises-particularly gambling casinos-in Germany, France, Monaco, Spain's Costa del Sol, and the Caribbean are conduits for money laundering. Since the early 1990s,



Italian criminal organizations have been reported buying properties and businesses in Eastern and Central Europe and many of the NIS of the former Soviet Union to launder money. According to media accounts, Sicilian Mafia front companies have been identified in virtually every East European country and in Russia.

Although Italian criminal organizations continue to operate largely independently in their traditional contraband smuggling and extortion rackets, their extensive involvement in international drug trafficking. arms smuggling, and money laundering has caused them to develop cooperative longterm relationships with each other and with foreign criminal groups. The Sicilian Mafia, 'Ndrangheta, Camorra, and Sacra Corona Unita have shared well-established international smuggling routes and sometimes helped finance each other's trafficking operations, according to US law enforcement. Collaboration with criminal groups from Turkey, Asia, Russia, the Balkans, and Latin America has assured Italian organized crime reliable sources of supply for drugs and arms. Italian criminal syndicates have worked with Albanian crime groups in trafficking women and children from the Balkans and Nigeria and illegal migrants to Italy. They have also played a prominent role in money laundering for Colombian traffickers and other foreign criminal organizations.

Drug and Arms Trafficking

The role of Italian criminal organizations in the European drug market has diminished, but drug trafficking remains an important source of revenue for Italian crime syndicates. Italian criminal organizations have traditionally procured Southwest Asian heroin from Turkish traffickers and have more recently established heroin-trafficking links to Russian, ethnic Abnaian, and Asian crime groups. Italian crime groups also collaborate with South American traffickers to acquire cocaine.

Since the collapse of the Soviet Bloc, local crime groups in the volatile Balkan states have become a major source of arms and explosives for Italian organized crime. The former Yugoslavia and Albania appear to be the primary areas for Italian criminal organizations to both acquire and sell illicit weapons.

Press reports in 1998 and 1999 indicated that blackmarket prices for Yugoslav-origin infantry weapons ranged from 100 to 500 percent more than the commercial prices for those weapons, and profits on explosives are enormous.

 With its traditional base of operations along Italy's southern Adriatic coast, the Sacra Corona Unita is extensively involved in smuggling arms from the Balkans.

Environmental Crimes

The illicit trafficking and disposal of hazardous wastes and trash is emerging as one of the most lucrative activities for Italian organized crime groups. The leading environmental group in Italy estimates that Italian syndicates cam \$3.5-8.5 billion annually from the illegal dumping of hazardous wastes and from other covironmental crimes, such as trafficking in endangered species. According to Italian press reports, front companies and legitimate waste-removal businesses controlled by Italian crime groups dominate both the legal and illicit waste disposal business throughout Italy and in parts of France and Switzerland.

 In 1999, Italian law enforcement officials reported more than 26,000 crimes against the environment and identified 138 criminal groups involved in such activity.

The dumping of hazardous wastes and trash appears to be the most significant source of illicit income for Italy's Camorra crime syndicates, topping their narcotics, prostitution, and embezzlement activities. Camorra clans control the collection of solid waste in Naples and surrounding municipalities. At the regional level, Camorra crime groups collect, transport, and dispose of hazardous and noxious wastes coming from other regions.

US Presence

Italian criminal organizations maintain an active presence in the United States and are involved in drug trafficking, arms smuggling, financial frauds, extortion, illegal gambling, counterfeiting, and money laundering. US law enforcement indicates that the Sicilian Mafia is the most active Italian organized crime group in the United States and maintains close contact with US La Cosa Nostra crime families in New York, Newark, Los Angeles, Chicago, Philadelphia, Detroit, Buffalo, and Tampa. 'Ndrangheth, Camora, and Sacra Corona groups also operate in the United States, particularly in Florida.

Italian organized crime groups continue to be involved in smuggling drugs into the United States, although they no longer are as significant as they had been in the 1960s and 1970s, when they were responsible for as much as 85 percent of the US heroin trade, according to DEA information. A series of investigations and prosecutions in Italy, Turkey, and the United States targeting Italian networks supplying heroin to the United States in the 1970s and 1980s substantially reduced the role of Italian organized crime in the US drug market. Italian crime groups make extensive use of specialty companies as fronts to move drugs and probably to launder drug money in both the United States and Canada.

Several Italian organized crime families continue to smuggle heroin into the United States using connections in Venezuela and Canada.

Eastern and Central Europe

In Eastern and Central Europe, the fall of Communistregimes and end of light border controls have attracted • fold
foreign criminal organizations. International criminal
activity in the region increased rapidly in the early
1990s as new democratic governments focused on
more fundamental political, social, and economic
problems. Russian, Italian, ethnic Albanian, Nigerian,
and Chinese criminal organizations and Colombian
drug-trafficking groups have all made inroads into this
region since the breakdown of the old order. In addition to developing these countries as targets for criminal activity, international organized crime groups are
exploiting their relatively weak law enforcement and
loose border controls to circumvent traditional organizations.

of entry into Western Europe, where customs and law enforcement measures have become more stringent. Several of the region's countries are transit routes for Southwest Asian heroin, and Poland and Croatia may be emerging as transportation routes for South American cocaine destined for Western Europe and new markets in Eastern and Central Europe.

Italian and Russian criminal organizations, in particular, have been active in developing mutually beneficial relationships with local criminal groups in transitioning former Communist countries that help facilitate their drug and arms trafficking operations.

Geography is one of the primary factors in the growth of organized crime in Eastern and Central Europe. The region is a strategic crossroads between Russia and the NIS—major "source" areas for international criminal activity—and Western Europe, a primary market for drugs and other illicit products. Contraband trade also crosses the region from West to East, as international criminal organizations—primarily Russian—smuggle alcohol and tobacco products, luxury automobiles, and other high-demand consumer items generally unavailable or prohibitively expensive in Russia from Western Europe.

- Hungary's borders with seven countries and relatively well-developed transportation system make it a major transit zone for all kinds of contraband smuggling. Stricter border controls and concerted efforts against organized crime in recent years have helped alter drug-trafficking routes and shipping methods, but Hungarian officials caution that the amount of drugs moving through the country probably has not decreased.
- Poland and the Czech Republic are also crossroads for smuggling directed at West European markets and extensive traffic in stolen vehicles being moved from Western Europe to the East. EU officials considering Poland's admittance to the European Union fear that weak border controls on Poland's eastern border with Ukraine could provide a gateway for illegal immigrants and organized crime into northern Europe.

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• Bulgaria and Romania remain key countries on the traditional Balkan route between Turkey and central and northern Europe. Criminal groups in the region take advantage of the heavy volume of commercial traffic along this route to conceal and smuggle contraband. The Balkan route—with Bulgaria as its gateway—has traditionally been the major avenue for smuggling Southwest Asian heroin to profitable West European markets. In the busiest months, some 1,000 vehicles—including trucks bonded and sealed under International Truck Route (TIR) procedures—cross from Turkey into Bulgaria on their way to other European destinations.

Criminals in Eastern and Central Europe have taken advantage of increased trade and commercial relations with Western Europe. Many criminal gangs from these countries have expanded their local criminal rackets into Western Europe. Polish crime gangs, for example, are now competing with the Netherlands as a significant source of amphetamines for Western Europe. Polish-produced amphetamines, known for their purity, make up at least 25 percent of the European market, according to European law enforcement officials. Poland, the Czech Republic, and Romania are key sources for women and children illegally transported to Western Europe and elsewhere, including the United States.

- Bulgaria was the world's second-largest source—after China—of pirated and counterfeit CDs in 1997, according to US Justice Department information. The government has cracked down on violators since early 1998 by introducing licensing procedures and raiding illicit CD-production operations. Because of its geographic location, Bulgaria is also a significant transit country for illegal CDs produced throughout the region, with pirated goods produced in Greece, Moldova, and Ukraine moving easily across its borders.
- Some 75,000 of the women and children caught in trafficking rings in 1997, more than 10 percent of the worldwide total, were from Eastern Europe, according to US Government estimates.

Since the European Union countries began implementing and enforcing tougher regulations against money laundering in the early 1990s, criminal organizations from both East and West have moved some of their money-laundering activities into the transitioning economies of Eastern and Central Europe. They have taken advantage of inadequate legislation—including lack of laws granting government agencies regulatory and criminal investigation powers—and poor enforcement of the region's developing modern banking and financial systems to smuggle cash and legitimize large sums of illicit rorbits.

 The multilateral Financial Action Task Force has estimated that money laundering in Poland alone has grown from \$2 billion to \$8 billion per year during the 1990s.

In recent years, press reporting citing government and law enforcement officials indicates that Italian and Russian criminal organizations have moved aggressively into the legitimate economy of many formerly Communist East and Central European countries. These criminal organizations and unscrupulous businessmen have taken advantage of poor regulations guiding privatization of national assets and capitalization of banks to purchase or invest heavily in banks, financial institutions, and businesses and to defraud fledgling stock markets. These activities have enabled criminal organizations to operate companies as fronts for smuggling contraband between East and West and for laundering illicit proceeds. Concerns that criminal elements have tried to take advantage of the privatization process has made officials in some of these countries more cautious about foreign investment.

The impact of criminal activity within their borders has focused the concerns of government and law enforcement officials in Eastern and Central Europe. As they have transitioned from a socialist system to market-oriented economies, the formerty Communist Eastern and Central European countries have had to confront crimes that were previously nonexistent. The previous regimes had no laws or regulations for dealing with crimes such as money laundering, stock market fraud, and theft of intellectual property rights.

Criminal activities, often abetted by corrupt officials, have undermined the economy in many of the region's countries. For example, unsecured insider lending and laundering of the proceeds through financial outflows contributed to the collapse of Bulgaria's banking sector in 1996. The Romanian Government recently estimated that at least 40 percent of the country's finances flow from the "gray" economy. Corruption in Slovakia, particularly relating to privatization, has slowed economic growth. Polish officials estimated \$60 million in revenue was lost from pirated music CDs in 1997. IPR legislation enacted by Poland in 2000 has the potential to reduce this problem.

Crime, corruption, and drug addiction have become salient political issues in many East and Central Burn-pean countries. According to a November 2000 public poll in the Czech Republic, 80 percent of that country's citizens believe economic crime and corruption are the country's most serious problems. Crime was a major issue in the May 1998 elections in Hungary that toppled the former socialist government and brought in a new center-right administration; the new governmen's Interior Minister declared that an appropriate response to organized crime was one of the new governmen's top priorities.

Bulgaria's government, elected in 1997, also made combating organized crime and corruption a policy priority, including cracking down on product piracy. In December 1999, the prime minister sacked twothirds of his cabinet, in part in response to allegations of corruption, according to local media. In August 2000, Bulgaria ordered the expulsion of eight international crime figures, according to media accounts.

The interest of most of the region's countries in becoming members of the European Union has encouraged them to consider regulations and legislation to deal more effectively with a broad range of criminal activities, including cross-border smuggling and money laundering. Government and law enforcement officials from these countries have been meeting with their West European and US counterparts to set up training and assistance programs for combating international criminal activity within their borders.

Russia, the Baltics, and the Newly Independent States

A major side effect of the end of the Cold War is that Russia and the NIS that were part of the former Soviet Union have become fertile ground for organized crime to expand its illicit activities. The end of police states, the relaxation of social controls, and the opening of borders in these formerly "closed" societies have allowed both local and foreign criminal organizations unprecedented freedom to operate. Criminal networks comprised of traditional organized crime groups, highly skilled professionals, and corrupt officials and politicians have moved quickly to fill vacuums created in climates of radical political, economic, and social change.

 The intertwining of organized crime and official corruption in Russia is undermining development of democratic and free market institutions.

Criminal groups have been aggressive in cultivating business relationships with politicians, government officials, and business magnates—a major factor in their becoming a pervasive and powerful force in Russia, the Batics, and other NIS countries. Corrupt officials in Russia have also provided criminal front companies with export licenses, customs exemptions, and government contracts.

The greater integration of Russia and the other states of the former Soviet Union with much of the rest of the world since the end of the Cold War has opened new avenues for international criminal activity. Russian crime groups are using the region's fledgling free market and banking sectors to move large amounts of capital across borders, to launder money, and to transact a variety of financial frauds. The removal of Moscow's formerly tight control over travel between different regions of the former Soviet Union and open

borders with Europe in particular has greatly facilitated the smuggling of drugs, arms, illegal immigrants—including trafficking of women and children—stolen vehicles, alcohol, cigarettes, and other illicit contraband.

• The former Soviet Union has become a significant market and international transit route for hashish, opium, and heroin from Southwest Asia, particularly Afghanistan. With several Central Asian countries bordering on Afghanistan, good east-west rail connections from Central Asia to Ukraine and western Russia, and lax enforcement, the former Soviet Union has become very attractive to international traffickers as an alternative to the traditional "Balkan Route" through Turkey and the former Yugoslavia for moving drugs and other contraband to Western Europe.

In Russia and many of the NIS, an alliance of corrupt government, criminal, and business elements resisted the effective implementation and enforcement of legal and economic reforms that would have inhibited their ability to gain control or substantial influence over the productive resources formerly owned by the Soviet state and to expand their illegal activities. Russian organized crime groups have capitalized on weak enforcement of existing regulations and inadequate or nonexistent legislation. They exploited the fitful growth of the private sector by investing in banks and businesses, providing protection of persons and property, settling disputes and contract fulfillment, and offering seemingly affordable loans with expensive strings attached. Law enforcement capabilities are hamstrung by cutbacks in funding, poor training and equipment, lack of sophisticated investigative techniques, and laws that do not apply to many of the illicit activities carried out by criminal groups, particularly financial crimes.

Russia passed a criminal code in 1996, but implementation and enforcement have been weak. With a draft criminal procedure code having languished in

- the Duma for several years, the Russians are relying on a heavily amended criminal procedure code from the Soviet era. Inconsistencies between the new criminal code and the criminal procedure code now in use impede the effective prosecution of crimes.
- Russia has drafted anti-money-laundering legislation that generally meets international standards, but has yet to submit it to the Duma for ratification.
- None of the countries in the former Soviet Union have legislation that would enable law enforcement to arrest those who conspire in criminal activity, not just those who actually commit the crime.
- While most of the NIS in the former Soviet Union are improving IPR laws for their admission to the World Trade Organization, none consistently enforce them, and few impose criminal penalties.
 IPR reform in the Eurasia region faces opposition by organized crime groups trafficking in counterfeit and pirated products.

Russia

Political Context

Economic and political instability following the dissolution of the Soviet Union in 1991 allowed organized crime to consolidate its position in Russian society. The government's continued ownership of major enterprises and role in regulating the economy created enormous opportunities for bribery and corruption of government officials in economic ministries and throughout government bureaucracies. Besides profiting from insider influence in privatization offerings and a broad range of economic-related criminal activities, Russian organized crime on occasion has been able to influence the legislative asenda. Russian criminals continue to buy political influence to protect their assets, to facilitate criminal activities, and to avoid prosecution. Some crime groups invested in the political process by participating—directly and indirectly—in election campaigns, including funding parties and candidates. Corruption in Russia's security and law enforcement institutions is an additional impediment to dealing effectively with the power of Russian crime groups.

Economic Penetrations

Crime and corruption have had a significant impact on the Russian economy. Russian organized crime groups have cashed in on privatization of formerly stateowned industries. Most significantly, Russian criminals have made substantial inroads into locaritive strategic sectors of the economy. Russian criminal experts say that organized crime is present in practically all of Russia's regions.

Russian organized crime is invested in Russia's developing financial sector. To some extent, Russian criminal groups have penetrated the banking sector by periodically providing cash infusions to financially troubled banks, using extortion or intimidation, and purchasing existing banks outright or establishing new ones, according to media accounts. They use their control or influence over banking institutions to launder illicit proceeds, to obtain financial information about competitors or potential extortion targets, and to withhold financial information from government regulators. By early 1998, Russian criminal groups had penetrated more than 550 banks, according to one Russian Growerment estimate.

Some of the business enterprises associated with criminal organizations in Russia are large transnational corporations engaged in importexport trade and commodities brokering whose networks and assets deprive the Russian Government of substantial legitimate revenues. Like many legitimate enterprises, businesses associated with crime —groups appear to be well-connected to political elites in Russia and other NIS and use their political ties, as well as bribery, to win concessionary contracts or to protect criminal transactions.

The hard-currency-earning oil and gas trading sector of the Russian economy is one of the most lucrative havens for organized crime. The international scope and relative profitability of Russia's oil and gas industry are attractive for conducting money laundering and other illicit financial activity. Criminal groups are involved primarily in oil and gas distribution, embezzlement, extortion, oil theft, and money laundering. Russian crime groups gained considerable clout in fuel and energy industries by supplying short-term business loans to oil companies and providing access to corrupted government officials who can lobby for fivorable legislation, or influence business deals.

Russia's aluminum industry has been a target of criminal groups because of its multibilition-dollar revenues. In addition, the fact that the aluminum industry is highly concentrated—four plants produce most than 75 percent of Russia's total output—allows criminal groups to infiltrate this industrial sector with relative ease.

Russian organized crime has also been extensively involved in smuggling gems and preclous metals out of the country. According to Russian Government estimates, \$100-300 million worth of diamonds are smuggled out of Russia each year. In 1998 and 1999, Russian law enforcement removed from illegal circulation about 1 metric ton of gold, more than 1 metric ton of silver, and 28,000 carats of uncut diamonds, cut gems, emeralds, rubles, sapphires, and pearls.

Impact on Russia's Financial System

Although not directly responsible for Russia's fiscal, banking, and investment problems, Russian organized crime groups have contributed to their severity by exacerbating systemic problems. Capital

Russia: Criminal Penetrations of Kay Economic Sectors Automobiles Cool Fishing and cavior Marilime shipping Timber **Mescous **Mescous

- flight, estimated by the Russian Government to be about \$1 billion a month, almost certainly includes some laundering of money from organized criminal activity. Russian crime groups reinvest little of their profits from even ostensibly legitimate business activity—such as hotels, restaurants, and casinos—domestically, instead frequently transferring their proceeds to more secure West European and offshore financial centers. Failure to repartiate export earnings and fictious import deals reportedly are the most common methods used by Russian criminals to move capital abroad.
- A researcher at the UK-based Organized Russian and Eurasian Crime Research Center conservatively has estimated that organized crime money accounts for about 25 percent of total capital flight from Russia. Using the recent estimate of \$1 billion-permonth capital flight from Russia, this would mean that Russian crime groups are sending about \$3 billion annually overseas to launder or hist.

According to one Russian estimate, the underground economy accounted for 40 percent of the country's GDP in 1996. Moreover, Russian crime syndicates almost certainly conceal all or part of the income generated by businesses they control from tax authorities by sending most of the money outside Russian.

 According to a 1997 study by then-President Yeltsin's staff, 70 to 80 percent of private businesses paid extortion fees to organized crime amounting to 10 to 20 percent of their revenue, making them unlikely to meet their full tax obligations.

Russia's financial problems are primarily exacerbated by a poor investment climate that fails to attract the capital necessary for economic growth. Besides government corruption, weak enforcement of contracts, and high taxes, legitimate investors—both domestic and foreign—are deterred by widespread extortion and the violence associated with having to deal with organized crime. According to published Russian figures, 79 Russian bankers and at least twice as many businessmen were assassinated in contract killings between 1994 and 1997. In 1999, there were 155 contract killings in Russia, according to published figures.

US and other foreign businesses interested in investment and joint-venture opportunities not only cannot compete on a level playing field due to the poor investment climate, but must also cope with criminal actortion and racketeering to do business in Russia. In the absence of effective legal protections, Russian businesses often rely on criminal groups and pay significant fees for protection, debt collection, capital, and information gathering. Representing their business "clients," criminal groups often play a role in negotiating contracts or resolving business disputes, which offen end violently.

 Western businessmen are not immune from criminal strong-arm tactics. In November, 1996 US businessman Paul Tatum, part owner of a major hotel in Moscow who was involved in a financial dispute with his Russian business partners, was killed in a "contract style" shooting. Although no one has ever been brought to justice for the crime, Russian investigators suspect organized crime was involved.

Social and Political Implications

Besides its significant impact on the economy, criminal activity has taken a substantial toll on Russian society. Rixing crime rates are overwhelming judicial systems in Russia, which are woefully underfunded and vulnerable to bribes from criminals, according to Russian press accounts. Criminal violence remains rampant, with crime groups targeting rivals, uncooperative businessmen and bankers, and anticrime media, enforcement, or political crusaders for assassination. Many Russian citizens have been victimized in robberies and elaborate schemes defrauding them of property and savings, some of which end in murder.

Over the past five years, Russia's domestic market for illegal drugs has grown substantially as the flowthrough of hashish, heroin, and other opiates from Southwest Asia, through Central Asia and Russia, to Western Europe-fed by the surge in Afghan opium production-increased with the end of Soviet travel controls and the opening of borders with Europe. Official Russian data show dramatic increases in drug addiction and crime rates since the collapse of the Soviet Union. In 1999, according to Russian data, there were 350,000 officially registered drug users in Russia, of which 175,000 were considered drug addicts. The Russian Ministry of Interior (MVD) and Health Ministry, however, estimate that the actual totals are 10 times greater-more than 3 million users and almost 2 million addicts; 3 million users would be about 2 percent of the Russian population. Russian and international health officials estimate that intravenous drug users are responsible for 80 to 90 percent of the 36,000 officially registered HIV cases; because of the lack of comprehensive HIV testing and reliable reporting methods, government officials and international experts suspect the actual number of Russian HIV cases may be five to 10 times higher than official estimates

The growth of crime and widespread corruption, together with Russia's struggling economy, is undermining Russia's transition to a fully functioning democracy and free market economy. Many Russians blame free market reforms for the breakdown of law and order and for having benefited primarily criminal entrepreneurs. Discredited for corruption and political ineffectiveness, it has become increasingly difficult for the Russian Government to meet its citizens' expectations for social justice, equality of opportunity, and improved living standards. Popular perceptions of liberal democracy as ineffectual, corrupt, and even in league with organized crime may boost the appeal of antidemocratic politicians opposed to further reform.

The Baltic States

The relative dependence of Estonia, Latvia, and Lithuania on Russian energy supplies and the importance of Baltic ports for Russian transit trade provide significant opportunities for Russian and other organized crime groups. Although all three countries have reoriented their trade more toward the West, Russia remains a major trading partner for Latvia and Lithuania. The Baltic states are the major commercial outlet between Russia and the West; according to Interfax Foreign Trade Report figures, the major Baltic ports handle nearly 13 million tons of Russian cargo annually. Russian and other organized crime groups are taking advantage of the high volume of trade through these ports to smuggle contraband both ways, including drugs transiting Russia to Western markets and automobiles stolen in Europe for Russian buyers. The trade in strategic commodities-particularly fuel and energy resources-is a particularly lucrative target for criminal groups.

 Operating within the sizable ethnic Russian population in the Baltic countries, Russian crime groups have taken advantage of the privatization process to buy business enterprises that became part of their criminal empires. They have established numerous front companies, particularly in the import/export sector for the purposes of facilitating illicit trade and laundering money. The rapid growth and poor government oversight of the Baltic countries' financial sectors enabled a few Russian criminal groups to acquire some control or influence in banking institutions to launder money and to make insider loans to their own front companies. The collapse of Latvia's Bank Baltia-the largest commercial bank in Latvia at the time of its failure in August 1995-illustrates the potentially severe implications of this trend. Bank Baltija was the centerpiece of a Russian and Latvian crime syndicate that used the bank to make bad loans to its own companies, defrauding the bank's accounts of as much as \$40 million. The bank's collapse provoked a major financial crisis in Latvia, contributed to the fall of the government, and forced Latvia to seek short-term assistance from the International Monetary Fund. This episode prompted Latvia to adopt tougher laws regulating the banking sector.

Ukraine and Moldova

As a strategic crossroads between East and West, Ukraine has experienced a significant increase in all forms of organized criminal activity during the 1990s. Transportation routes through Ukraine are used by Russian and Ukrainian organized crime groups to smuggle arms, drugs, other contraband, illegal immigrants, and trafficked women between Russia, Ukraine, and Western Europe. The volume of legitimate trade, including in strategic commodities such as oil, make Black Sea ports in Odesa and in the Crimea attractive to organized crime. Russian organized crime groups are particularly well-connected in Crimea and Odesa—datine back to Soviet rule.

Organized crime has flourished in Moldowa over the past decade, especially in the breakaway Transnistria Region. Moldowa's local crime groups have established close ties to Russian, Ukrainian, and other foreign criminal syndicates that also act in the country. Criminal groups in Moldova are frustrating government efforts to attract needed foreign investment and are contributing to political and social instability. · Moldova is one of the largest per capita sources of trafficked women and girls in the NIS, primarily for the sex industry in Turkey, Greece, Italy, and the Balkans.

As in Russia, the overlapping connections among the new business class, criminal groups, and government officials have made corruption a significant problem for Ukraine and Moldova. Political connections have assisted criminal groups and their front companies' efforts to acquire lucrative contracts or state-issued licenses for exports, particularly in the energy and metals-trading industries. Corruption in Ukraine has contributed to a significant level of gangland violence that has involved or targeted government officials.

The Caucasus and Central Asia

In both regions, criminal groups are taking advantage of nominal border controls and weak law enforcement. The mountainous, remote Caucasus countries of Georgia, Armenia, and Azerbaijan, have traditionally not had the benefit of active control by law enforcement. Criminal activity there has been largely local and focused on extortion, robbery, smuggling, and kidnapping. The Central Asian countries have become an increasingly important alternative to traditional Southwest Asian-Balkans routes for heroin and hashish shipments from Afghanistan destined for Russia and Europe. Tajikistan is the major gateway for Afghan heroin being smuggled into Russia. Organized crime groups in Central Asia and the Caucasus will look to take advantage of development in the Caspian Sea oil basin, which gives them potential access to lucrative oil revenues.

The Central Asian countries are increasingly calling for action against the expanding drug trade from Afghanistan. Uzbekistan, Kyrgyzstan, and Tajikistan in particular believe that drug trafficking is a major source of funds for insurgencies threatening their national security.

Russian Organized Crime

Powerful Russian criminal organizations with international networks are one of the most troubling and dancriminal groups had their genesis in the Soviet Resistant legitimate and illicit business interests on a global

when the black market helped to grease the wheels of the command economy, including ensuring that large state-owned factories received the necessary supplies to keep operating. They also developed allies among Soviet officials by providing them goods and services difficult to obtain in the USSR. While in Soviet prisons during the 1970s and 1980s, some of the top crime leaders forged personal ties that today facilitate occasional coordination of activities, sharing of business investments, and support for one another when in trouble. Russian organized crime groups exploited the privatization of state-owned resources and systemic weaknesses in Russia's fledgling market economy following the collapse of the Communist system to build powerful criminal empires. They cultivated mutually beneficial relationships with government officials and politicians to become powerful players in Russian politics and society.

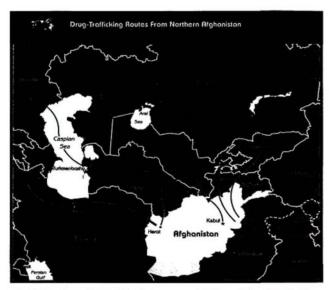
According to the MVD, there are 89 major criminal communities in Russia that comprise about 1,000 smaller criminal groups. Eleven of these communities, made up of 243 groups with some 50,000 members, also operate in 44 other countries. The US Government estimates there are about 200 sophisticated organized crime groups in Russia with a broad range of operations, some of which extend beyond Russia's borders in some 60 different countries. Most Russian criminal organizations are located in industrial and commercial centers, giving them opportunity to make inroads into lucrative sectors of the Russian economy.

Russian crime groups are characterized by ruthlessness and violence, and many are very well armedpresenting a formidable challenge to Russian law enforcement elements, which are often outgunned, and underfunded particularly at the local level. There is no apparent supreme hierarchy among Russian organized crime groups, nor is any one group masterminding the activities of the others. Instead, Russian criminal organizations have their own spheres of influence that are generally defined by geography, ethnicity, and, in some cases, specific criminal activity.

International Bases of Operation

From their Russian base, the leaders of major Russian organized crime groups have broadened their influence worldwide through political and business contacts, which they have used to facilitate their

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scale. Since the collapse of the Soviet Union, Russian organized crime groups have spread rapidly beyond the former Soviet borders and have a presence in some 60 countries in Europe, North and South America, the Caribbean, Asia, and Africa. The international presence of Russian organized crime, however, is most pronounced in Eastern and Central Europe, where Russian crime groups are involved in narcotics and

weapons trafficking, car theft, and financial crimes. Russian organized crime money-laundering operations have been observed in offshore banking centers in the South Pacific, Cyprus, and various Caribbean islands as well as in East European economies. These groups tend to mount sophisticated large-scale financial fraud schemes.

Solntsevo: Russian Organized Crime Group With International Dimensions

The Solutisevo criminal organization is widely perceived to be the most powerful Russian crime syndicate in terms of wealth, influence, and financial control. Its leadership, structure, and operations exemplify the new breed of Russian criminals that emerged with the breakup of the Soviet system. Rather than the traditional "thieves-in-law" who dominated the criminal underworld during the Soviet period and played more of a "godfather" role in overseeing loosely organized criminal networks, the leaders of Solutisevo and other post-Soviet Russian criminal groups are not only more flamboyant, aggressive, and politically savvy, but also well-versed in modern technology and business practices that allow them to operate efficiently across international borders.

The power and wealth of the Solutsevo crime group derive largely from its financial and business network in Russia and highly placed political connections. According to press reports, Solutsevo benefits from Moscow city projects through its reported links to a construction tourism, real estate, and utility conglomerate that obtained many of its properties from the city and holds others jointly with the municipal government.

While dominating Moscow's criminal underworld including the market for drugs, particularly cocaine— Solntsevo also has extensive worldwide operations. Solntsevo's international criminal activities are said to include trafficking narcotics and arms and money laundering.

Outside former Soviet Bloe borders, Russian criminals take advantage of places that are most attractive to Russian businessmen and tourists, using them as cover and opportunity to engage in a broad range of criminal activities. Russian criminals use overseas resorts frequented by Russian speakers to run extortion rackets and prostitution rings, trade in blackmarket consumer goods and drugs, and to launder money.

Russian crime groups are also attracted to countries that have liberal cash circulation laws, fow restrictions on direct investment, and allow nonresidents to establish businesses. Investments in the real estate, tourist, and entertainment sectors, interest in banks and financial services companies, and the establishment of front companies in countries frequented by tourists and businessmen from the former Soviet Union provide a ready baven for laundering and hiding illicit proceeds earned there and smuggled out of Russia and the NIS.

 Russian organized crime groups have affiliated themselves with Italian criminal organizations to increase their illicit profits and range of operations, according to press reporting. They have used their ties to Italian criminal groups to establish extensive businesses in Italy—investing as much as \$4-7 billion between 1993 and 1995 alone, according to Italian trade industry estimates—primarily to facilitate money laundering. Russian and Italian criminals cooperate in international drug trafficking, arms smuggling, and counterfeiting.

Over the last several years, Russian organized crime groups have been expanding their operations internationally by establishing international business enterprises in offshore financial centers. Low incorporation fees and quick startup provisions in many offshore havens have enabled Russian criminals to change firm names—complicating any law enforcement investigations against them—with relative ease and low cost. The use of nominee shareholders and directors also hides ownership and helps to avoid account inquiries in the case of litigation or criminal investigations.

Once Russian criminal proceeds have been placed in an offshore firm, they can be moved quickly and relatively safely through the global electronic funds transfer network supporting international banking and commerce.

Transnational Crimes

Russian organized crime groups are heavily involved in economic crimes. The bulk of the most serious economic crimes are in the credit and financial spheres; the Russian Government reported more than 300,000 economic crimes in 1999, about 10 percent of the total crimes registered. The most common financial crimes include credit defaults, their by bank employees, and forpring of documents.

Russian criminal groups take advantage of the tourist industry and prey on Russian tourists and Russians owned businesses overseas, particularly in the countries they most frequent. Tourism industries abroad catering to Russian visitors are shaken down and exploited by Russian organized crime. According to Russian press reporting in 1998, Russian crime groups routinely demand 10 to 15 percent of the revenue from hotels, casinos, and restaurants frequented by Russian speakers. Crime groups from the former Soviet Union use the tourism industry to move women—posing as tourists or members of large tour groups—overseas to serve in prostitution rings. Some, if not most, of the women reportedly are held in virtual slavery.

Some Russian crime groups own interests in several airlines, air charters, and travel agencies operating in the former Soviet Union and elsewhere that they use to facilitate and conceal their criminal operations overseas. The travel industry provides Russian criminals with cover and the means to smuggle contraband from abroad into Russia, including drugs and electronic appliances, clothing, and other consumer goods that they sell on the black market.

With the former Soviet Union having opened as an avenue for narcotics shipments from Afghanistan, Russian criminal organizations have gotten increasingly involved in the drug trade. There is little information confirming major Russian involvement in the

transit of narcotics across the former Soviet Union, but Russian organized crime groups dominate the domestic drug market and take advantage of Baltic seaports and Russia's now-porous borders with Eastern Europe to smuggle heroin into West European markets and bring occaine into Russia.

 Press reporting from the region says that Russian troops in Tajikistan have accepted large bribes to facilitate the movement of Afghanistan-produced narcotics into Central Asia and are themselves involved in drug trafficking. In the most notable incident, Tajikistan officials seized 109 kilograms of opium from a Russian Border Guards helicopter in August 1996.

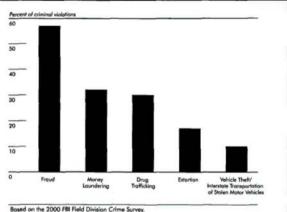
International drug traffickers and Russian criminal groups have established relationships both to mosupply the narcotics through the former Soviet Union and to supply the Russian market. Press reporting, which cited Russian law enforcement and Interpol information, indicates that by the mid-1990s Italian and Russian crime groups had at least tacit agreements to cooperate in the movement of narcotics through the former Soviet Union.

With close ties to corrupt officers and soldiers in the Russian armed forces, Russian organized crime groups are heavily involved in Illicit arms trafficking. Most Russian criminal arms deals involve sales within Russia and other countries of the former Soviet Union, including to combatants in ethnic conflicts in Chechnya, Georgia, Armenia, and Azerbaijan. Some Russian arms trafficking has been to countries in the throes of civil conflict. Unconfirmed press reporting indicates that Russian criminal groups have sold large caliber weapons to Latin American drug traffickers in exchange for cocaine.

Russian Organized Crime in the United States Russian organized crime has been a growing law enforcement problem in the United States since small groups began establishing a foothold in this country in



Most Frequent Violations Found in US Investigations Involving Russian Organized Crime, FY 2000



the late 1970s. Although many Russian crime groups are based in the United States, others are cells of criminal organizations based overseas. As in Russia, there is no supreme authority tying these groups together in the United States.

Larger Russian criminal organizations based in Moscow and other locations overseas have become an increasing law enforcement concern since they began establishing a US presence after the 1991 dissolution of the Soviet Union. Unlike the smaller gangs that were already established in Russian-speaking enclaves-whose criminal focus is on white-collar fraud crimes and which do not have any specific ties to Russian organized crime abroad-these larger groups are involved in large-scale criminal activities, with international dimensions, that generate enormous profits. Their connections to powerful criminal organizations in Russia provide them a source of illicit contraband and criminal expertise. The US-based members or affiliates of these groups provide services like laundering large sums of money or acquiring drugs for the Russian market.

 Russian criminal organizations in the United States are adept at moving funds through a global complex of front companies, offshore financial service centers, and crime-controlled banks to facilitate extraction of criminal proceeds originating in Russia, as well as to launder funds generated from US-based criminal operations.

Although Russian organized crime is still not as significant a threat in the United States as La Cosa Nostra and some other ethnic-based crime groups, the sophistication and international connections of Russian crime groups in the US make them well-positioned to expand their criminal operations. US law enforcement indicates that Russian criminals in the United States are, in general, better educated and more skilled than members of La Cosa Nostra; law enforcement analysts consider Russians among the best in the world in orchestrating economic and financial crimes.

 Russian criminal organizations operating in the United States are primarily involved in extortion, drug trafficking, auto theft, cigarette smuggling, trafficking in stolen art and icons, and money laundering. Russian crime groups are not major players in the US drug market—although the potential is there—but use the United State of the production of the for cocaine destined for Russian. Russian criminals are also extensively involved in a wide array of fraudulent schemes, including health care fraud and defrauding financial institutions.
 Some of these scams are in league with La Cosa Nostra. Insurance fraud schemes in the United States by Russian crime groups netted \$2 billion from California's subscribers to one insurance company in the 1990s, according to press reports, and \$200,000 from an insurance company in Boston in the late 1990s.

The Balkans

The breakup of the former Yugoslavia and ensuing regional conflicts there have led to a sharp rise in criminal activity in the region. Previous Serbian, Croatian, and Bosnian Governments all used criminal networks as a means to evade international sanctions and acquire material necessary for the war effort. The collusion between governments and local criminal gangs weakened law enforcement and provided an environment ripe for corruption. Under Milosevic, the Serbian Government colluded with criminal smuggling networks to evade Western sanctions. These networks were critical in supplying the black market, which served as Serbia's de facto service economy, and may have accounted for some 20 to 40 percent of the country's GDP.

Many of the criminal business enterprises set up to circumvent earlier sanctions are still operating. The lifting of many sanctions since the Dayton peace accord in 1995 did not diminish the activities and local influence of criminal groups in the region because they were now firmly rooted in society. As the region struggles to rebuild local economies, criminal groups have little trouble Inding gang-member recruits from the large number of unemployed and underemployed, many of whom view crime as an attractive source of income. Organized crime in the former Yugoslavia also continues to benefit from corruption and weak law enforcement.

Local crime groups in all the countries of the former Yugoslavia are taking advantage of opportunities for gunrunning, smuggling liquor and cigarettes, trafficking in women for prostitution, extortion, and money laundering, Trafficking of heroin through the former Yugoslavia toward markets in Western Europe has become a major business for organized crime groups. Criminal groups tied into manufacturing enterprises are engaged in theft of intellectual property rights. Moreover, the region's local crime groups have established cooperative networks to move relatively freely across borders.

Local crime groups not only threatened implementation of police and justice provisions of the Dayton peace accord, but their activities also impede efforts to promote political reconciliation and economic reconstruction. Criminal gangs remain a significant problem throughout Bosnia.

Kosovo remains plagued by criminal activity. Ethnic Albanian, Bosnian, Croatina, and Serbian organized crime groups are taking advantage of corruption and the region's porous borders to traffic women, drugs, arms, and other contraband. The former Kosovo Liberation Army may have used its organized crime links to Europe to obtain arms and ammunition.

Organized crime groups from outside the region, primarily from Italy, have forged ties to local criminal groups in the former Yugoslavia to facilitate their own international criminal activities—particularly arms and drug smuggling. They have also used the opportunity to set up various criminal rackets in the region, including financial fraud schemes involving investments that can destabilize the economy. Italian organized crime groups have strengthened criminal relationships across the Adriatic, according to press reporting.

Albania, once the most isolated country in Europe, became a haven for local and foreign criminal groups after the collapse of its Stalinist regime. The opening of the country's borders and political disarray in Tirana have allowed Albania to become a primary alternative to traditional Balkan smuggling routes through the former Yugoslavia that were disrupted by the breakout of ethnic fighting in the early 1990s. Italian organized crime groups—particularly the Sacra Corona Unita from Italy's Puglian region across the Adriatic Sea—were quick to establish a presence in Albania. They routinely use Albania's long and now virtually unguarded coastline as a staging area for smuggling drugs, arms, and other contraband across the Adriatic Sea to Italy.

Albanian crime gangs flourished in the political and economic chaos that followed the Hoxha retrained for the downfall. They are very well armed—having the fall of the first the seconomic chaos that followed the Hoxha retrained for the first the

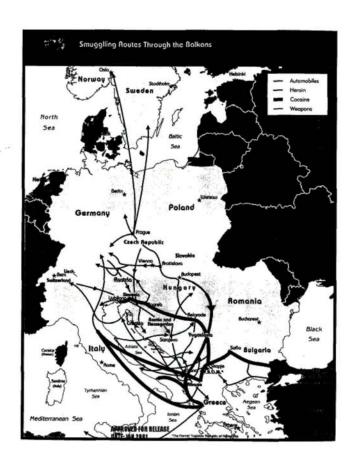
sizable quantities of weapons from former government stocks-and dominate much of the rural countryside, particularly in the southern part of the country. Criminal syndicates have a powerful presence in the port cities of Durres and Vlore and other major cities. Relying on longstanding cross-Adriatic and Balkans smuggling routes, Albanian crime gangs control the local black market in consumer goods, weapons, and narcotics. In addition to acquiring heroin from Turkish criminal organizations, Albanian crime groups have become involved in cocaine trafficking, with some South American cocaine being shipped directly into Albania. Albanian crime groups are cultivating marijuana throughout Albania for distribution in both the domestic and broader European market, particularly Italy and Greece.

 As a result, Albania has become a Balkans hub for drug trafficking—including occaine and heroin for the European market—alien smuggling, and other contraband smuggling. Albanian crime groups have expanded their criminal operations across the Adriatic into Italy, where they have become a significant criminal threat.

Organized crime has influenced political and economic developments in Albania. Thousands of Albanians lost their life savings to complex countrywide pyramid investment fraud schemes run by Albanian crime gangs and largely stage-managed by Italian criminal organizations. The collapse of the pyramid firms in late 1996 provoked a political crisis so severe it toppled the central government. Despite the restoration of public order since then and efforts by the government and police to curb their activities, Albanian crime groups remain powerful and a corrupt influence on Albania's fragile institutions.

Ethnic Albanian Criminal Groups

Ethnic Albanian criminal syndicates are one of the most significant of the smaller, more local crime groups that have recently expanded beyond their country's borders. Primarily a legacy of the political, social, and economic chaos that resulted from the downfall of Albania's Stalinist regime and the breakup of the former Yugoslavia in the early 1990s, ethnic Albanian crime groups have established a presence



throughout Europe and are becoming a growing problem for European law enforcement. Albanian crime groups, whether originating in Kosovo or Albania itself, are typically from tightly knit clans.

By collaborating with criminal organizations in neighboring countries and with Italian organized crime groups, ethnic Albanian crime gangs have become very active in smuggling drugs, arms, cigarettes, and illegal aliens and trafficking women throughout the region. Ethnic Albanian criminal gangs have also used ties to foreign organized crime groups and the large number of expatriate Albanians to expand their operations into the European Union countries. While relying on Turkish traffickers as a source for beroin. ethnic Albanian groups have become major competitors of Turkish criminal groups in trafficking drugsparticularly Southwest Asian heroin-to parts of central and northern Europe, according to police agencies throughout the continent. Police officials have been quoted in the media as saying that Albanians now dominate local sales of heroin in Norway, Sweden. southern Germany, and Switzerland. Albanian criminal groups may also be challenging Italian organized crime interests in Italy, including heroin distribution and movement of illegal aliens from southern Italy to the north. According to Italian law enforcement, Albanian crime syndicates by 1999 controlled most of the prostitution rackets in Italy and were smuggling heroin, hashish, cigarettes, weapons, and other contraband into Italy for shipment to Western Europe. Italian law enforcement officials claim ethnic Albanian crime groups also traffic women and children to Italy.

 Albanian criminal syndicates are moving into the northeastern United States, although their criminal activities are still small-scale.

South Asia, Turkey, the Middle East, and Eastern Mediterranean

Criminal organizations with international networks centered in Turkey, Pakistan, India, the United Arab Emirates (UAE), and Cyprus operate within a centuries-old commercial tradition of moving contraband merchandise through the South Asia-Middle East-Eastern Mediterranean region. The region is a focal point for narcotics and arms smuggling between Europe and Asia and for brokering a wide range of illicit deals, including to evade US or international patterns and to transfer controlled technologies.

materials associated with weapons of mass destruction. Major port and commercial cities in the region particularly Istanbul, Karachi, Mumbai (Bombay), and Dubai—are key centers of criminal activity. Criminal organizations in these cities exploit extensive underworld connections, pervasive political and business corruption, and the large volume of trade and financial transactions. Although commercial centers now have modern financial services, criminals also hide their funds and arrange illicit financing through complex, virtually impenetrable underground banking systems.

South Asia

The South Asia region is a primary source of heroin for the international drug trade, primarily for the West Asian, European, and Eurasian markets. Afghanistan is the world's largest producer of illicit opium. Pakistan is a major transit country for Afghan-produced opiates and is also a source of illicit opium poppy. In India, substantial amounts of opium are diverted to the black market from legal production for pharmaceutical industries in the United States and elsewhere. South Asian heroin traffickers maintain extensive networks throughout the region in commercial centers and port cities to arrange financing and movement of drugs. Interpol reports that some 80 percent of the heroin used in Western Europe comes from South Asia.

- The US Government's annual crop estimates show that opium production in Afghanistan is more than eight times higher than in 1990. Illicit opium poppy cultivation has increased despite public pronouncements by the Taliban, which controls most of Afghanistan, that they were cutting back on the opium industry. Afghanistan by itself now accounts for 72 percent of illicit worldwide global opium production.
- Illicit opium poppy cultivation in Pakistan, on the other hand, has doclined from once significant to marginal levels, in large part because of intensive eradication efforts. Pakistan now accounts for less than 1 percent of the world's illicit opium production.
- Illegal drug abuse has skyrocketed in the major source and transit countries that are at the crossroads of the Southwest Asia heroin trade: 3.5-5 million local addicts consume much of the region's opium
 Illimoneroin production, according to UN estimates.

In Pakistan alone, the heroin addict population has grown from virtually none in 1980 to more than 2 million and perhaps as high as 4 million, according to some estimates.

Under predominantly Taliban rule, international terrorists and drug traffickers have been able to operate
with impunity in Afghanistan. The Taliban have
given sanctuary to renegade Saudi terrorist Usama Bin
Ladin, allowing him and other terrorist groups to operate training camps in Afghanistan. Bin Ladin, in
return, has used his extensive wealth and business network to help financially support the Talibhan. Despite
the Taliban's public condemnation of the illicit narcotics industry, virtually all of Afghanistan's opium
poppy cultivation and morphine base and heroin processing laboratories are located in Taliban-controlled
territory. The Taliban profits from the Afghan drug
trade by taxing opium production and drug movements.

Iran remains the most important conduit for Afghan drugs being moved toward lucrative markets in Western Europe. Traffickers use historical trade routes to move drugs, as well as other contraband, from Southwest Asia through Iran to Turkey, or to Iranian Persian Gulf coast scaports and harbors for shipment to the Arabian Peninsula. Bedeviled by its own large opium and heroin abuse problem, Iran has given high priority to drug interdiction and harsh punishment for captured traffickers. In recent years, Iran has been among the top countries in making drug seizures and has paid a high price in lives with more than 3,000 killed in armed confrontations with traffickers since 1988.

Pakistan and India both have traditional and modernizing criminal underworlds involved in contraband smuggling, including drugs, gold, and consumer goods. Until Afghanistan began emerging as a major center for refining opiates into morphine base and heroin in the mid-1990s, most of the region's opiate processing laboratories were located in remote Pakistani territory adjacent to the Afghan border. With its betterdeveloped infrastructure, including a major regional commercial center and port in Karachi, Pakistan remains a major transshipment route for Afghan-produced opiates. India's well-developed transportation infrastructure, long and porous coastline, and lenient export policies and controls have played into the hands of criminal smuggling operations for drugs, gems, and other prized contrabactors. DATE: JAN 2001

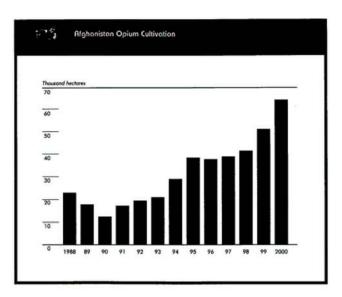
depots provide an easy means of smuggling drugs and other contraband from the interior to Indian seaports like Mumbai, Goa, Chennai (Madras), and Calcutta that handle a large volume of international trade.

India's legitimate industries that support the world's pharmaceutical markets are a source of supply for raw materials and precursor chemicals for the libicit drug trade. Indian officials acknowledge a significant problem of diversion from India's extensive legitimate optium industry—which supplies much of the world's pharmaceutical market—to the more lucrative black market. As much as 25 percent of India's projected 1999 opium crop may have been diverted to the black market, according to Indian officials. In addition, some Indian-produced ephedrine and pseudoephedrine intended for pharmaceutical manufacturers has gone toward the production of methamphetamine in Southeast Asia.

Turkey

Astride the Europe-Asia continental divide, Turkey also has a traditional criminal underworld and history of smuggling. While traffickers are making greater use of the former Soviet Union as an alternative route for moving Southwest Asian heroin to Western markets. Turkey remains a linchpin in the region's heroin trade. Narcotics brokers in Turkey play a critical role in buying morphine base and heroin from producers in Southwest Asia and moving the drug to distribution networks in Europe and North America. Much of the heroin entering Turkey passes through territory in the southeast controlled by the Kurdistan Workers Party (PKK), which is considered a terrorist group. The PKK reportedly levies taxes on traffickers moving drugs through border crossings with Iran or territory in southeastern Turkey that it controls.

PKK members in Europe have been involved in wholesale and retail distribution of heroin, as well as other criminal activities, to help fund their operations. Some may funnel narcotics and criminal proceeds into party coffers. It is unclear, however, whether or to what extent the PKK central command may direct or participate in such activities, or has ties to other drug-trafficking groups in Turkey.



The United Arab Emirates

As a regional transportation, banking, and commercial crossroads between Europe, the Middle East, North Africa, and Asia, the UAE—with its permissive business environment—has emerged as an important locus of criminal activity. The UAE maintains an advanced maritime shipping infrastructure, including at least 15 commercial seaports, to facilitate international trade. According to the international shipping industry, UAE seaports are handling nearly 5 million containers per year, 2.8 million in Dubai alone. More than 70 percent

of containers arriving in UAE ports are in transit and are not inspected by customs officials, making them an attractive shipping option for criminals trafficking contraband through the region. The UAE also has extensive international air connections; more than 61 airlines provide scheduled passenger service between Dubai and more than 150 foreign destinations. Some UAE-based firms are probably front companies for criminal organizations or states of concern.

APPROVED FOR RELEASE DATE: JAN 2001

South Asian Heroin Trafficking and Criminal Networks

Much of the Afghan opium industry and drug trafficiing in Southwest Asia is controlled by a network of traffickers based in Pakistan and Afghanistan. Their ethnic, tribal, and political affiliations give them the connections and capability to negotiate drug transactions, assemble drug loads, and transport shipments to wholesale buyers in Turkey and other international markets. This network of loosely affiliated traffickers frequently cooperates with other traffickers based in Pakistan, Afghanistan, Iran, and the UAs.

Powerful Indian criminal syndicates, particularly Mumbai-based crime groups, became involved in international drug trafficking in the mid-to-late 1980s when the Iran-Iraq war disrupted traditional Southwest Asian heroin trafficking routes from Pakistan, through Iran, to Turkey, Relying on Indian expariates living in the UAE, Indian crime syndicates use longestablished networks for smuggling gold, silver, counterfeit currency, electronic goods, and other contraband to transship heroin from South Asia to markets in Europe and, to a lessee extent, North America.

Indian criminal syndicates also may be involved in arms trafficking, alien smuggiling, and trafficking in women. Narcoicts trafficking may be an inportant source of revenue for Indian crime syndicates; trafficking patterns show connections to Europe. Africa, Southeast Asia, and regionally to Sri Lanka. Indian crime groups also dominate the methagualone drug trade in eastern and southern Africa; South Africa is a particularly important market for methaqualone, also known as mandrux, which is produced primarily in India.

 There is extensive smuggling of contraband through Dubai, into whose ports more than half of the containers shipped to and through the UAB arrive.
 Dubai is an important transit point for precursor chemicals required for the production of heroin in Afghanistan and Pakistan. The UAB is becoming a more important transit avenue for drug shipments from Southwest Asia on their way to Turkey, Europe, and Africa.

 Organized crime groups from Russia and other former Soviet countries—particularly from Central Asia—have established criminal and money-laundering networks in Dubai.

Dubai has become a significant center for financing illicit activities, in part because the preference of many businesses to deal in large amounts of cash makes it difficult for banks to distinguish between legitimate and illicit transactions. Drug traffickers, criminal organizations, and terrorist groups appear to use the Dubai banking system to launder money and conduct major financial transactions. The UAE is also a major center for underground banking hawala networks tied to India and Pakistan.

According to press reports, money-laundering activity in the UAE may total \$1 billion annually. The UAE is actively considering statutes that would make money laundering a crime, and the UAE Central Bank has recently issued new regulations to combat money laundering.

Lebanon

Although its political situation is stabilizing, Lebanon remains a haven for terrorist training, as well as a minor drug-trafficking and processing center. Several Islamic extremist and Middle East terrorist factions continue to maintain training camps in the Bekas Valley, and some have used the country as a staging area for terrorist attacks against Israel. Syrian and Lebanese authorities cracked down on opium and cannabis cultivation in the 1990s, but drug traffickers continue to operate in the area. Opinates from Southwest Asia and cocaine from South America appear to be moving through Lebanon into Turkey, Syria, Israel, Jordan, the Arabian Peninsula, and other destinations.

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Israel

Since the collapse of the Soviet Union, Israel has become a significant operating area for Russian criminals, who take advantage of Israel's large Russian immigrant community of more than 600,000 to conduct criminal activities in Israel and abroad and launder illicit proceeds. Several international criminal figures from Russia, Ukraine, and other NIS have obtained Israeli citizenship and passports, often fraudulently, for the purpose of establishing a safehaven in Israel and to facilitate their international travel. According to press reports, Israeli police officials have estimated that 10 to 15 organized crime groups from the former Soviet Union, including Solntsevo, have a presence in Israel.

 Russian criminals who have obtained Israeli citizenship appear to believe they are protected from foreign law enforcement investigations and that they will not be extradited to a foreign country to stand trial for crimes committed there.

Prior to Israel's passing a law making money laundering a crime in August 2000, strict bank secrecy laws and the absence of currency import controls and bank reporting requirements made Israel a major haven for money laundering by Russian criminal syndicates. Israeli police sources estimate that organized crime groups have invested as much as \$4.5 billion in Israel since the early 1990s. The security of Israeli investments and the stability and growth of the Israeli economy are attractive to criminals seeking investment opportunities for their illicit proceeds. One recent press report cited Israeli police sources as saying about \$5 billion of Israel's \$17 billion in foreign exchange reserves may be attributed to money belonging to Russian organized crime.

The growing presence of Russian crime groups has exacerbated the organized crime problem in Israel. Russian crime groups traffic women into Israel from Russia and the NIS, control prostitution rackets, and illegally produce and import music and computer software CDs. Russian criminals in Israel may also be involved in diamond smuggling; Israel is a hub of the legitimate international diamond trade, importing more than half of worldwide diamond production.

Cyprus

With a business environment that features a minimum of regulations and a location astride major commercial routes, Cyprus has been a regional center for arms trafficking, sanctions evasions, and trade in dual-use goods related to weapons of mass destruction. Nicosia's focus on developing the island's offshore business sector through corporate-friendly policies intended to lure legitimate businesses to Cyprus also attracted firms and individuals involved in illicit international trade and illicit financial transactions. Banking and corporate secrecy, little or no taxes, and simplified incorporation procedures have made it easy for states of concern, terrorist groups, and organized crime groups to set up numerous front companies to facilitate illicit arms transshipments, acquire proscribed technologies, and launder funds. Commercial information indicates that the island's development of free ports and free trade zones in Limassol and Larnaca have been attractive to businesses seeking to transship illicit cargo because goods in transit are rarely inspected; according to industry journals, about 5.000 ships from some 100 shipping lines call at Cypriot ports annually.

 There are some 24,000 offshore firms registered in Cyprus, of which approximately 1,100 maintain a physical presence on the island.

Greece

With its extensive Mediterranean and Aegean coastlines, numerous islands, overland borders with the Balkans, and vibrant banking sector, Greece has emerged as an increasingly active hub for international criminal activity. Greece is located along two spurs of the traditional Balkans route for drug trafficking. Crime syndicates from the Balkans—including ethnic Albanian crime groups—Western and Central Europe, Africa, and the former Soviet Union use Greek territory to smuggle drugs, arms, cigarettes, and illegal migrants to Western Europe. Italian criminal organizations control the illegal cigarette trade in Greece, according to press reports, and earn as much

Southeast Asian Drug-Trafficking Networks

Heroin and methamphetamine production in Southeast Asia is dominated by ethnic drug-trafficking armies operating mostly in Burma's remote opiumproducing region. The drug-trafficking armies had beoun as insurvent groups and still claim to have an ethnic-based social and political avenda, but the largest have become primarily engaged in the production and trafficking of heroin and methamphetamine and in other illicit and lucrative economic activities-including gem smuggling and illegal logging and timber smuggling. Since its continuing crackdown on the prodemocracy movement began in 1988, the military regime in Burma has reached agreements with most of these ethnic armies in remote regions which have allowed the regime to focus on prodemocracy threats in critical urban areas while turning a blind eye to drug trafficking and other criminal activities.

• With the breakup of the Mong Tail Army, which had been led by the notorious heroin kingpin Khun Sa, in 1996 as a result of disruptions caused by the arrests of high-level associates in a joint US-Thai law enforcement operation, Thailand's closing of border checkpoints used by the trafficking group, and Burmess milliary pressure, the United Wo State Army (UWSA) has become the largest drug producer in Southeast Asia. In addition to being the biggest regional producer of theroin, the UWSA is also the dominant producer of methamphetamine, for which there is a large market in Thailand.

Ethnic Chinese and Thai criminal networks in Thailand and Burma play a major role as brokers, financial backers, and transporters in the Southeast Asian heroin trade. Operating in major regional commencial centers like Bangkok. Hong Kong, Singapore, and Taiwan and using a wide array of interchangeable front companies and legitimate businesses, Chinese and Thai criminal networks also arrange financing and transportation of drugs, routing drugs through many different ports—largely by commercial shipping—to their final destination.

that are engaged in money laundering, extortion, and trafficking women for the sex industry.

- According to Greek police officials, international crime syndicates operating in Greece take in as much as \$11.5 billion annually from their criminal operations.
- Weak enforcement of money-laundering laws has made Greece an attractive locale for money laundering, particularly by Russian organized crime.

Southeast Asia

The export-oriented economies of Southeast Asia provide both opportunity and cover for international criminal activities, as well as a market for drugs, counterfeit products, and other contraband. Bangkok, Singapore, and Kuala Lumpur are attractive locales for international criminal activity because they are the region's largest commercial centers. The high volume of land and maritime trade, particularly containerized shipping, extensive manufacturing industries, and breadth of financial activity facilitate contraband smuggling, money laundering, and violations of trademark and intellectual property rights. Firms in Malaysia are major counterfeiters of US audio, visual, and software products. Nearly one-third of all the women and children victimized by trafficking rings for the worldwide sex industry are from Southeast Asia. Singapore is an increasingly important hub for drug and other contraband smuggling because of its highvolume seaport.

 According to trade data, Singapore vies with Hong Kong as one of the world's busiest container ports, handling 15.3 million containers; 80 percent of all Southeast Asian maritime traffic destined for US west coast seaports has a Singapore nexus, according to the US Customs Service. Singapore's international aimort is Asia's busiest air cargo terminal.

Investments in the region's infrastructure development by businessme engaged in a wide variety of illegal trade activities have facilitated contraband smuggling and money laundering. Unscrupulous businessmen in all of the region's countries, many of whom had long been involved in drug or contraband smuggling, exploited Southeast Asia's economic boom prior to such trades and the seconomic boom prior to the seconomic boom prior the seconomic boom the seconomic the seconomic boom the seconomic the late 1997 to raise wealth and significant political influence. In Thailand and Singapore in particular, they took advantage of ambitious government programs for economic growth and infrastructure development to establish flucrative criminal enterprises alongside legitimate businesses. Some have accumulated significant wealth through dealings in narroctilegal gambling, lotteries, illegal logging, prostitution, extortion, contraband smuggling, and arms trafficking. Major drug traffickers in Burma reportedly have become significant investors in infrastructure development, which can be used to facilitate both drug smuggling and money laundering.

Opium poppy growing regions in remote areas of Burma and Laos make Southeast Asia the world's second-largest source region, after Southwest Asia, for illicit opium for the international heroin trade. Opium poppy cultivation is an important income-carner for the hill tribes residing in these impoverished regions, where the infrastructure for supporting legitimate economic activity is either lacking or in poor repair.

Southeast Asia accounts for more than half of illicit opium poppy cultivation, according to the US Government's narcotics production estimates, despite poor growing weather from 1997 to 2000 that substantially reduced the size of the crop. Nonetheless, Burma alone accounted for about 50 percent of the world's illicit opium cultivation in 2000. In contrast to its high cultivation, Burma produced only 21 percent of the world total of illicit opium. Laos ranked third with 4 percent of illicit global production. Southeast Asia's opium production is substantially lower than Southwest Asia's only because opium vields are about one-fourth those of Afehanistan.

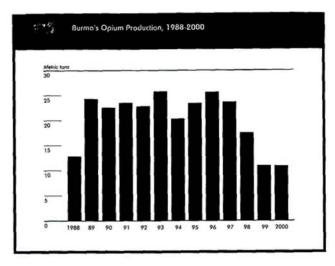
Unskilled young males in or from these regions especially those who have migrated to urban areas where they have few job prospects—are a prime source of recruits by drug trafficking and other criminal organizations. Many of the crews of fishing boats used to smuggle heroin through the Gulf of Thailand to major commercial maritime transship ment ports in the region—Singapore and Hongi, for example—are migrants from northeastern Thailand and similarly impoverished regions in Burma and Cambodia.

The social and political consequences of criminal activity have been considerable for all countries in the region. A large criminal underground largely immune from law enforcement and judicial actions because of bribes and favors bestowed on powerful politicians, bureaucrats, police, and military figures has helped undermine the credibility of Southeast Asian institutions. Criminal earnings, especially from the drug trade, underpin important new investments in Southeast Asia, sussian crime groups, for example, are involved in the tourism industry in Ban Phattha Ya, Thailand. Meanwhile, Southeast Asia's longtime role as a major conduit for Burma-produced narcotics—both beroin and, more recently, methamphetamine—has fed a growing drug addiction problem.

 About 800,000 Thai are infected by HIV, some 10 percent from heroin abuse, according to Bangkok's Ministry of Health.

In recent years, international criminal activity has become a more significant problem for Indochina. As a result of Thailand's intensified efforts against drug smuggling, traffickers primarily use southern China as a transit route but have also increased their use of Cambodia and Vietnam as an alternative transshipment route. Opium poppy cultivation has become established in northern Vietnam, and Hanoi's efforts to improve the country's transportation and import/ export infrastructure are making Vietnam more attractive to drug traffickers and other criminals. Phnom Penh's renewed emphasis on economic development has increased opportunities for corrupt business entrepreneurs like Teng Boonma, a longtime reputed drug trafficker in Southeast Asia. According to the Cambodian press. Teng owns most of Kampong Saom-the country's most important port city-and a key transit point for Cambodian marijuana.

¹ Thailand, which in the past had been a larger producer of opium, now accounts for less than 1 percent of the region's total opium production because of effective crop eradication efforts.



China

China's increasing role as a source area of international criminal activity, including greater worldwide influence of Chinese criminal syndicates, has paralleled its emergence as a global economic power and Beijing's opening to foreign investment. US law enforcement reporting indicates that, since the early 1990s, more than half of the heroin produced in Burma now transits Yunnan Province and other regions of China on its way to drug markets in China itself and in North America and Australia. Fujian Province is a major base of operations for criminal brokers known as "snakeheads" who, using contacts around the world, orchestrate the movement of illegal Chinese immigrants to the United States, Canada, Europe, Latin America, Asia, and Australia. Legitimate textile works, factorics, and high-tech manufacturers in Guangdong Province are major producers of pirated and counterfeit products; according to the International Intellectual Property Alliance, China is a leading violator of US intellectual property rights.

 Criminal activity flourishes in China despite extremely strict penalties, including death, for many crimes.

APPROVED FOR RELEASE DATE: JAN 1981

Beijing's economic reforms and priority given to promoting international trade and investment have created opportunities for both mainland and overseas Chinese organized crime syndicates.

- Economic liberalization has allowed criminal syndicates to establish front companies and to invest in legitimate business enterprises. As in legitimate ventures, government officials and enterprises are often enlisted as partners to belp facilitate business operations. In some cases, participation of Chinese authorities in criminal business ventures helps shield them from investigations and prosecutions.
- The substantial improvements being undertaken or planned for mainland China's seport fracilitiesincluding expanded capacity to handle large container ships—open more options for Chinese criminals using international trade as a cover for their operations. Larger capacity ports allow them to diversify routes by transporting illicit cargoes, including drugs and arms, directly across the Pacific to major scaports in the United States, Canada, or Panama without having to transit Hong Kong, Taiwan, Singapore, or Japan. Moreover, technology improvements at the new port facilities—together with corrupt local customs enforcement—allow criminals to move goods faster, cheaper, and often with less risk.
- The decline of some traditional Communist social policies in China has given criminal groups unprecedented flexibility. The abolition of internal travel controls facilitates moving drugs, arms, and illegal migrants to coastal ports for smuggling out of the country, as well as the movement of contraband to big city markets inside China. Moreover, the large "floating population" of rural migrants seeking work provides a steady source of recruits for Chinese crime groups.

Widespread corruption, particularly at the local level, has contributed to increasing international criminal activity in China. Often lacking modern equipment and training in modern police tactics, China's police are ill-equipped to deal with the growing crime problem. In some regions of China, local military units have supplemented the police in law enforcement operations, especially against smuggling networks. Corrupt officials in some Chinese Government organizations and state-run business enterprises have been involved in illicit activities ranging from facilitating drug trafficking and alien smuggling, to providing arms to criminal groups in the black market, to smuggling strategic materials—particularly petroleum products—into the country.

The entrepreneurial stake of many Chinese officials in various business enterprises—fully legitimate and otherwise—lends itself to criminal activity for profit. Chinese arms factories under pressure to earn hard currency and attracted to easy money on the black market may be a source of weapons for Chinese arms traffickers. Ephedrine and pseudoephedrine produced in China for the world's legitimate pharmaceutical markets are also illegally exported or diverted to the international illicit drug-producing market, where these commodities are key components in the production of methamphetamine; in November 1997, authorities in Shaanxi Province seized I) metric tons of ephedrine that was on its way to Burma.

These developments, together with Beijing's policy of inviting overseas Chinese businessmen to trade and invest in China, have allowed powerful Chinese triad criminal organizations from Hong Kong, Macau, and Taiwan to establish strong footholds on the mainland, especially southern China. The triads have set up

many varied businesses in Guangdong and Fujian Provinces, the Shenzhen and Xiamen Special Economic Zones, and Beijing where there is a significant international business presence and a substantial volume of trade and financial transactions. Firms associated with import/export trade and manufacturing may be used as cover for drug trafficking, arms trafficking, alien smuggling, and the piracy and distribution of products protected by intellectual property rights. Entertainment businesses—such as gambling, prostitution, nightchubs, karaoke parlors—that cater to Chinese elities and foreign businessmen are cash-intensive and provide excellent cover for money-laundering schemes.

 Press reporting indicates the Hong Kong triads have been cultivating Chinese officials since the early 1990s to ease their way into mainland China.

Mainland Chinese crime groups exploiting widespread corruption have established strong ties of their own to Chinese officials and entrepreneurs. In Fujian Province, Chinese alien smuggling networks operate with the assistance of corrupt officials, local police, and customs officers. Through these activities and the establishment of international networks, mainland Chinese criminal syndicates may be eclipsing the once-dominant role played by triad members from Hong Kong and Macau.

Political and Economic Impact

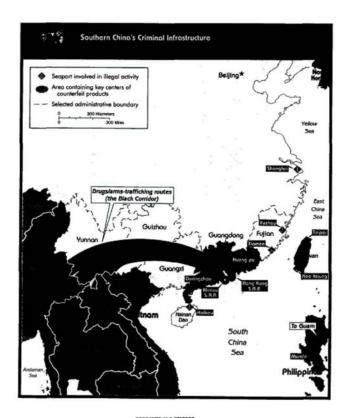
Chinese authorities are increasingly concerned about the impact of criminal activity on Chinese society. Drug abuse and violent crime have become more pronounced, challenging China's police and social services and undermining Communist Party authority. The impact on the Chinese economy has been significant; criminal activities have cost the Chinese Government sizable losses in tax revenues, impeded industrial growth, and aggravated the difficulties facing legitimate state-owned enterprises. The Chinese leadership is particularly focused on corruption

because the perception of widespread corruption at all levels of government and law enforcement is corroding the credibility and performance of Chinese leaders and law enforcement personnel.

- Public concerns about corruption were a factor in the social tensions leading up to the Tiananmen protests and crackdown on the prodemocracy movement in 1989.
- In the last year in particular, China has selectively investigated, prosecuted, convicted, and punished several high-level provincial officials for criminal corruption, including trade frauds. The dynamics of leadership politics and rivalries, however, have kept several high-level political and military leaders and their families safe from prosecution despite credible allegations of their involvement in criminal or corrupt activities.

Heroin addiction has become an enormous problem since China became an increasingly important transalpment route for heroin produced in Burma, Before 1990, when most Southeast Asian heroin transited Thailand, China had few problems with drug trafficking or addiction. Between 1990 and 1998, however, the number of registered drug abusers in China increased by a factor of 10 from some 70,000 to nearly 700,000, according to official Chinese statistics; unofficial estimates of drug addiction in China range from 1 to 12 million. A January 1998 Chinese press article reported that addicts in China spend some \$17 billion annually on illicit drugs.

² The reliability of some Chinese statistics is questionable, particularly for much of the data dealing with the societal consequences of crime. In some cases, China does not have good data collection, which almost certainly underestimated—perhaps significantly—the scale of these profetoms. Since 1997, Beijing has waged as intensive publicity campaign to encourage bonesty and accuracy in reporting data.



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• Intravenous beroin use is contributing to a significant HIV/AIDS problem in China, accounting for 70 to 90 percent of HIV transmissions, according to Chinese press reporting. In late 1998, Chinese officials estimated there were some 300,000 HIV/AIDS cases in China, but this figure is probably conservative given weaknesses in China's HIV/AIDS reporting and monitoring system. The Chinese Academy of Preventive Medicine forecasts more than 10 million by 2010 if control efforts are not successful.

Contraband smuggling has become a target for a major law enforcement crackdown beginning in July 1998. Chinese Premier Zhu Rongji in August 1998 announced that rampant smuggling had reached unprecedented levels in terms of its scope and quantity of products. He also blamed smuggling for corrupting government officials, poisoning social morals, and a surge in other crimes. China's high tariffs and taxes, as well as nontariff barriers to trade, make smuggling of foreign-produced automobiles, cigarettes, computer software and equipment, electronics, petroleum products, and other goods extremely lucrative for criminal groups and corrupt officials. Illegal imports, besides depriving the government of substantial customs revenue, have seriously disrupted China's key oil industry, as well as the country's computer, automobile, and cigarette sectors, according to press reports. Organized crime syndicates, including Hong Kong's 14K triad and mainland criminal groups, are heavily involved in the smuggling of automobiles and cigarettes into China for Chinese consumers and for reexport to foreign markets.

 Local press reports in 1998 indicated that the value of goods smuggled into China totals about \$12 billion annually. During the first eight months of 1998, Chinese officials seized more than \$650 million in smuggled goods that would have netted \$200 million in customs duties. A good portion of China's capital flight—estimated by one business industry journal at \$20 billion for 1998—is said to go toward smuggled goods.

China is also struggling to control a growing black market in small arms, including military weapons, that are sold to criminal groups throughout East Asia. Increasing quantities of firearms have shown up inside China, contributing to the crime problem and sometimes challenging the firepower available to local Chinese police and security officers. Chinese police in Guangdong and Liaoning Provinces have encountered crime gangs armed with military-style assault rifles. A portion of the weapons traded on China's black arms market are sold to criminal groups in Hong Kong and Macau, adding to Beijing's concern about crime and social order in both enclaves. Chinese authorities claim most of the arms come from Vietnam and that Vietnamese gunrunners dominate the trade, but many of the weapons trafficked in China probably are from police and military stocks or from Chinese arms factories.

Infrastructure development projects in China designed to attract and support foreign trade and investors are a major draw for investment by Chinese criminal groups. Some Chinese criminal syndicates try to profit from ambitiously planned infrastructure development projects in China by direct investment, offering loans, or arranging financing.

 Chinese authorities report that organized crime groups target legitimate investors in large-scale scams. According to 1998 press reports, Beijing closed down 25 large-scale investment scams each involving \$125,000, and in the last half of 1998 the Chinese broke up pyramid schemes worth more than \$250,000.

Hong Kong

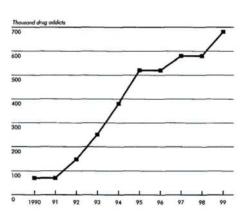
As one of the world's leading commercial, financial, and transportation centers, Hong Kong has long been a hub of criminal activity in East Asia—a status that has not changed since China assumed sovereignty over the territory in 1997. The massive volume of trade in containerized shipping through Hong Kong offers substamtial opportunity for criminals to smuggle all kinds of contraband, including drugs and arms, and illegal migrants.

 Handling some 16 million containers annually, according to Hong Kong Government data, Hong Kong vies with Singapore as the busiest container port in the world.

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China's Registered Drug Addicts, 1990-99



 In October 2000, Hong Kong Customs officials discovered 26 illegal Chinese migrants hidden in a maritime container about to be shipped to Long Beach. California.

The volume of traffic between Hong Kong and the Chinese mainland provides enhanced cover for international criminal transactions. In 1999, according to Hong Kong Government data, some 12 million travelers and 700,000 vehicles crossed the land border from China.

 The projected growth in Hong Kong's international transportation connections is expanding the options available to Chinese criminal syndicates for smuggling drugs, arms, and other contraband products.

Hong Kong's status as one of the world's most developed financial centers makes it vulnerable to attempts to use its financial institutions for laundering illicit proceeds. Wide-ranging links to the international bosiness community and the modern banking sector in Hong Kong provide extensive cover for money-laundering operations and for financing illicit activities.

- Daily foreign exchange turnover amounted to about 590 billion and total bank deposits approached \$280 billion at the time of Hong Kong's reversion to China in 1997, according to press reports, illustrating both the potential scope and the difficulty of monitoring illicit transactions.
- Hong Kong is one of East Asia's major sanctuaries for heroin drug profits. Heroin traffickers launder proceeds through numerous businesses in Hong Kong that are associated with Chinese triads.

Hong Kong's ethnic Chinese organized crime groups, commonly known as triads, control local criminal activity. As they did during the former British colonial rule, triad members continue to infiltrate and cultivate contacts in Hong Kong's civil service, political parties, news media, and stock exchange who can help protect or further their interests. While they do not monopolize international smuggling and illicit financial transactions, triad members frequently help broker deals and facilitate shipments of drugs, arms, and other illicit contraband through Hong Kong to overseas destinations.

Hong Kong's two largest triads, the 14K and Sun Yee On, protect many of the retail businesses involved in manufacturing and distributing counterfeit compact discs and are engaged in buying, moving, and selling contraband CDs. A series of raids against several compact disc factories by Hong Kong authorities in 1998 resulted in the seizure of more than 1.8 million pirated discs. Moreover, Hong Kong's lucrative film industry is widely regarded as controlled by the triads.

As an international commercial and financial center, Hong Kong probably continues to attract both legitimate and illicit business enterprises from the Chinese maintand. Relatively simple procedures for registering companies allow criminals to establish front companies, particularly export/import firms, to facilitate their attempts at smuggling and money laundering. At the same time, however, increasing direct interactions between southern China's major commercial centers and the international business community reduce the incentive for criminal groups or illicit businessmen to move to Hong Kong's much stricter law enforcement environment.

In stark contrast to much of the rest of China, Hong Kong has made major headway against corruption, primarily because of its strong and effective anticorruption agency, deeply entrenched common law systems, strong rule of law tradition, and well-organized and well-equipped law enforcement bodies. Over the years, Hong Kong has developed strong legal and financial systems to counter money laundering. It is substantially in compliance with the standards set by the FATF, and Hong Kong is a leader in the regulation and supervision of its financial sector. Nevertheless, despite recent legislative improvements, banking and other financial institutions in Hong Kong continue to operate with loopholes that can be exploited by international criminals, including the lack of mandatory

reporting for currency deposits exceeding certain levels, tight bank secrecy laws, low taxation rates, the absence of controls on money flows into and out of Hong Kong, and the availability of underground banking networks.

Macau

Since Macau's reversion to Chinese administration in 1999, organized crime continues to have substantial influence over the enclave's economy. Organized crime groups still dominate Macau's gaming industry, the primary engine of the economy. In addition to the substantial revenues they generate of their own accord, gambling and prostitution rackets in Macau are used by local and other crime groups for money laundering.

 Macau business tycoon Stanley Ho, a reputed organized crime figure, controls the gaming monopoly that has the sole license for casino gambing in Macau. In 1999, according to press reports, Ho's gaming monopoly generated a net profit of about \$100 million.

Contributing to and exploiting pervasive corruption and lax law enforcement in Macau before the colony's handower to China, triad criminal groups also controlled or had substantial influence in many legitimate business enterprises, including manufacturing plants, some of which were used to cover for criminal activities. With easy access to Hong Kong, a more open border with the mainland, and few extradition or mutual legal assistance treaties with other jurisdictions, Macau had also become a transit route for arms traffickers and alien smuggling groups.

 Turf wars to control gaming parlors, loan-sharking, protection rackets, and prostitution rings were widespread in Macau before the handover.

Local and national Chinese law enforcement authorities have been working to diminish the power of organized crime in Macau since its reversion to China. Atthough triad involvement in casinos and other businesses remains a serious problem, there has been a marked decline in organized-crime-related violence in Macau: there were only seven murders in Macau in the first 10 months of 2000, compared to 37 murders the previous year. The weakness of Macau laws to combat money laundering remains a serious problem.

Taiwan

Organized crime is deeply entrenched in Taiwan's business and political sectors. Large ethnic Chinese criminal syndicates such as the United Bamboo and Four Seas triads—which followed the ruling Kuomingtang party from the mainland to Taiwan in the late 1940s—and Taiwanese criminal gangs have established strong influence in Taiwan's local communities. Criminal groups are extensively involved in feeding off Taiwan's generally strong economy. They reportedly have been involved in direct extortion of "protection" money from construction firms, engage in bidrigging for public works projects, and have tried to manipulate the island's stock market.

 Three gangs were said in 1997 to be taking 8 to 15 percent of southern Taiwan's budget for public engineering contracts, according to press reporting.

Although the organized crime problem in Taiwan is largely domestic, Taiwan-based criminal groups use the island's extensive international trade and financial links to further their illegal activities overseas. According to world trade data, the port of Kao-hsiung handles some 5 million containers annually, the third largest volume after Singapore and Hong Kong, making it vulnerable to narcotics and contraband smuggling through Taiwan to other international destinations. Shipping and other businesses in Taiwan, some influenced by organized crime, that have established subsidiaries and partners in major commercial centers in other countries, particularly Panama and elsewhere in Latin America, are believed to be used as fronts for smuggling, illicit transactions, and money laundering.

Increasing indirect trade between China and Taiwan, and Beijing's policy of encouraging investment by Taiwan businessmen, probably is contributing to growing contacts between Taiwan and mainland Chinese criminal syndicates. Some Taiwan-based triads have links to Hong Kong and China, including establishing front companies or investing in specific criminal ventures. In 1998, Chinese authorities discovered two Taiwanese-financed methamphetamine drug laboratories in Hunan Province.

Vote buying has provided criminals significant influence within Taiwan's political system, especially at the local level. Members of crime groups themselves seek, and often win, public office, which allows the access to lucrative public contracts and offers limited immunity from prosecution and a chance to cleanse criminal reportations.

 Political corruption and the ties of former ruling party politicans to organized crime continue to be potent political issues in Taiwan. Taiwan's new President, who won election in March 2000 largely on an anticorruption, clean government platform, has pledged to make this one of his highest domestic priorities.

Ethnic Chinese Criminal Networks

The international criminal threat posed by ethnic Chinese criminal networks has become more complex as crime groups originating in mainland China have joined the traditional triad societies of Hong Kong, Macau, and Taiwan in expanding their networks far beyond China's borders. While the powerful triads, which trace their origins to Chinese secret societies in the 17th century, are the largest of the Chinese criminal associations, they continue to operate largely according to traditional practices and their criminal activities are largely focused on more traditional extortion, gambling, drug trafficking, gunrunning, and alien smuggling enterprises. The upstart Chinese criminal groups from mainland China, on the other hand, are more loosely organized, their members more flamboyant, and their criminal operations often more sophisticated. These groups are also extensively involved in international drug trafficking, alien smuggling, arms

trafficking, and money laundering, but they have also moved more aggressively than the triads into more sophisticated and highly profitable areas of credit card fraud, theft of computer chips, software piracy, and other intellectual property violations.

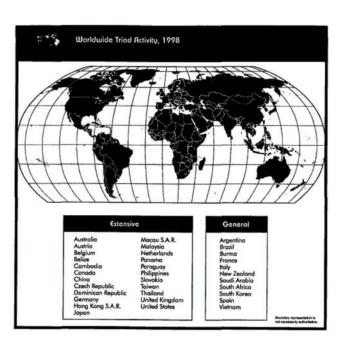
Both the triads and crime groups originating in mainland China have established relationships with ethnic Chinese crime groups in countries throughout the Pacific Rim, Europe, and the Western Hemisphere. Using traditional Chinese practices of networking, ethnic Chinese crime groups rely on a broad criminal fraternity that can broker contacts in any country where there is a large ethnic Chinese community and help facilitate transnational criminal activity.

 Chinese organized crime has strong roots in Chinese ethnic enclaves around the world. Local Chinese crime groups—ranging from street gangs to more formally structured groups modeled after, or affiliated with, traditional triads—typically are extensively involved in local rackets like gambling, loan sharking, narcotics distribution, prostitution, and business extertion.

While they are closed and secretive to outsiders. Chiness criminal organizations generally have few qualms about cooperating with other ethnic criminal groups in profitable joint ventures. For example, in the United States, Canada, and Europe, Chinese organized crime groups have worked with Italian and Dominican criminal organizations in trafficking beroin.

Europe and North America are major targets for Chinese criminal networks. Although ethnic Chinese groups are not as powerful as Italian or Russian organized crime in Europe, they have long-established footholds in the Chinese communities of several European nations from which they appear to conduct most of their illegal operations. International Chinese organized crime groups are particularly strong in the Netherlands, the United Kingdom, and Germany. Since the late 1980s, Chinese criminal organizations have also established themselves in Central Europe, which has become a major conduit for moving illegal Chinese immigrants to Western Europe.

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Triads Versus Mainland Chinese Criminal Groups Most triad societies are based in Hong Kong, Taiwan, or Macau, but their influence spans international boundaries with members located in virtually every country that has a sizable Chinese community. Triads, which collectively have an estimated worldwide membership that exceeds 100,000, are fluid associations of ethnic Chinese criminals and quasi-legitimate businessmen involved in an array of criminal enterprises. Most Hong Kong triads have evolved into loose-knit groups operating and cooperating with each other on the basis of personal introductions and mutual interests. Triad leaders do not dictate to members what criminal activities they should pursue and generally do not receive monetary benefits unless they are directly involved with the actual criminal enterprise.

- Hong Kong police estimate there are 50 to 60 different triad societies operating in Hong Kong, Currently, Hong Kong's largest triad, Sun Yee On, is the only one with a true hierarchical structure. By contrast, the 14K triad, still one of the most powerful, is comprised of more than 15 loosely affiliated groups.
- In addition to their traditional criminal enterprises, Hong Kong triads have diversified more into sophisticated white-collar crimes. Recent Hong Kong government figures suggest increased triad involvement in high-tech computer crimes and criminal activities such as possible manipulation of the stock and futures markets. Using connections in mainland China and taking advantage of the different legal systems in Hong Kong and the Guangdong region of southern China, the Hong Kong triads have also increased their cross-border criminal activities.

The major triads like 14K and Sun Yee On, both based in Hong Kong, and the United Bamboo Gang, based in Taiwan, have autonomous branches extending world-wide that help to facilitate transnational criminal activities. In the 1990s, Hong Kong triads strength-enod their presence and relationships in Western countries, including by making various investments in legitimate businesses, as a hedge against the political, economic, and law enforcement uncertainties of Hong Kong's reversion to China in 1997. The two largest Hong Kong triads, 14K and Sun Yee On, have made substantial property investments in Canada this

decade. The 14K reportedly is the fastest growing triad in Canada. The FBI also reports there is a substantial 14K presence in the United States.

• It is not unusual for different triad groups, both in Hong Kong and abroad, to work together where there is a specific opportunity for mutual profit. Hong Kong police, however, maintain that there is no international triad network or centralized control over cross-border activities, such as drug trafficking or alien smuggling, between mainland China and Hong Kong. Most cooperation in such criminal enterprises is more ad hoc collusion, according to Hong Kong authorities.

Criminal groups from mainland China, typfifed by the Big Circle Gang and the Fuk Ching Gang, have cells operating in countries around the world that cooperate with one another on an ad hoe basis to conduct farreaching criminal schemes. These criminal cells typically operate autonomously with no known central authority controlling them. Cell leaders use their extensive connections to organize often very complex criminal operations that require a high degree of organization and planning. The coordinated efforts of members in various countries enable them to carry out international drug trafficking, amis trafficking, alien smuggling operations, as well as a variety of more sophisticated financial fraud crimes.

• US and Canadian law enforcement reporting indicates the Big Circle Gang, which is the dominant organized crime group in China, has in a short time become one of the most active Asian criminal organizations in the world. By the early 1990s, the Big Circle Gang had established criminal cells in Canada, the United States, and Europe, It is extensively involved in drug trafficking, alien smuggling, webicle theft and trafficking, and various financial, intellectual property rights, and high-tech crimes. Big Circle Gang cells are also highly sophisticated in their use of technology to thwart law enforcement investigations, according to US law enforcement investigations, according to US law enforcement. Since first appearing in the United States in the early

1990s, Big Circle Gang members have been detected in New York, Boston, Seattle, San Francisco, and Los Angeles.

 The Fuk Ching Gang is most notorious for alien smuggling, including the Golden Venture tragedy off New York in 1993.

Chinese Criminal Threat to the United States

The United States faces a growing threat from Chinese organized crime groups that are using Canada as a base from which to conduct criminal activities that impact our country. Members of ethnic Chinese criminal groups from China, Hong Kong, Taiwan, and Macau have exploited Ottawa's immigration policies and entrepreneur program to enter the country and become Canadian residents, which makes it easier for them to cross into the United States. Canada has become a gateway for Chinese criminal activity directed at the United States, particularly heroin trafficking, credit card fraud, and software princy.

The two largest Hong Kong triads, 14K and Sun Yee On, increased their presence and made substantial property investments in Canada during the 1990s. Prominent 14K members from Hong Kong and Macau have emigrated to Canada during this time, and Sun Yee On triad members have settled in Toronto. Edmonton, and Vancouver. The 14K, which maintains a chapter in Toronto, also has been tied to Asian criminal activities in New York and other US cities. Sun Yee On members are involved in trafficking beroin and methamphetamine, as well as alien smuggling, to the United States, where the triad has ties to New York's Tung On Gang.

The most active Asian criminal group operating in Canada, however, is the Big Circle Gang. The Big Circle Gang is responsible for importing much of the Southeast Asian beroin entering Canada—much of which is then smuggled into the United States—and the source for many of the counterfeit credit cards used in North America.

of "sokaiya," corporate extortion, often by threatening to disrupt corporate shareholders meetings, has been generally tolerated by Japanese society, despite the economic influence it has given organized crime. Their role in local communities has sometimes placed the vakuza in a better position than the government to respond to civic emergencies, such as when they responded more quickly and efficiently than the Jananese Government in bringing relief aid to victims of the 1996 earthquake in Kobe. The vakuza have also benefitted from historically weak anti-crime legislation and limited law enforcement investigative authority. By adhering to rules of conduct that preclude violence against the police and innocent civilians. Japanese crime syndicates traditionally have been able to operate largely in the open, including highlighting the location of their headquarters in local communities.

The yakuza were able to cash in on Japan's economic and real estate boom in the 1980s to expand their profit-making activities beyond their traditional criminal arenas of drugs, gambling, prostitution, and corporate extortion. Housing loan companies, jusen, that were affiliated with major Japanese banks reportedly issued a portion of their loans, many of which were not repaid, to yakuza-tied firms as part of the speculative boom in real estate in the 1980s. As a result, the yakuza were behind many of the problem loans leading to the 1996 collapse of the jusen mortgage industry.

• One expert on Japanese crime believes that yakuza interests may have directly accounted for 10 percent of the banking industry's bad loans, which he estimated as high has \$700 billion, and an additional 30 percent of the bad loans may have been indirectly tied to yakuza affiliations. The president of a Japanese corporation assigned to help collect the bad debts stated in 1998 that yakuza-affiliated companies tied to billions of dollars of bad debt were the most formidable obstacle to recovering those loans.

³ One press report estimated the banking industry's bad loans to be as high as \$1 trillion.

Japan

Over the years, Japanese crime syndicates, known as yakuza, have exploited their traditional roles in arbirating disputes and loan collection to gain a measure of public acceptance. The yakuza's measure of public acceptance.

....

In some cases, the yakuza sought to block the disposal of real estate assets that underlie the bad loans.

Although information is limited, press accounts indicate it is very likely that the yakuza have links to Japaness Government officials and have influenced some government decisions. Few of these incidents are widely publicized. In November 1997, however, yakuza connections to sokaiya scandals involving major Japanese banks and similar related allegations against members of the powerful Finance Ministry were widely reported in the Japanese media.

Despite the longstanding tradition of tolerance for the yakuza, the Japanese have become less accepting of organized crime activities in recent years, primarily because of public concerns about increasing street crime and drug abuse, rather than the yakuza role in the financial crisis and banking scandals. "Anti-yakuza" legislation implemented in the early 1990s and updated in 1997, such as recently implemented legislation allowing wiretaps in some criminal investigations and a nationwide crackdown on sokaiya, appears to have helped curb some organized crime activities. Despite the yakuza, ethnic Chinese criminal gangs linked to illegal immigration, drug smuggling, and arms trafficking are publicly perceived as the most serious criminal threats to Japan.

Japanese Yakuza

Taken as a whole, the yakuza are among the world's largest and most powerful criminal confederations. The yakuza are highly structured and criminally diverse organizations that have thoroughly penetrated Japanese society, including the legitimate economic sphere, through their extortion-like practice of "sokaiya." There are an estimated 3,000 yakuza groups and subgroups based in Japan. According to Japan's National Police Agency, 60 percent of the estimated 90,000 members and associates of vakuza families are affiliated with one of three groups: the Yamaguchi-Gumi, Sumiyoshi-Kai, and Inagawa-Kai. These groups control most organized criminal activity in Japan, including gun trafficking, drug smuggling, alien smuggling, prostitution, illegal gambling, extortion, and white-collar crime through infiltration of legitimate businesses.

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 Academic specialists on Japanese organized crime have estimated the annual revenue of the yakuza at about \$13 billion.

While most of their criminal operations are in Japan, yakuza groups have established a presence throughout Asia, Australia, and the Western Hemisphere. The yakuza have used their international networks primarily to acquire nacrotics, guns, or illegal immigrants particularly women for prostitution—for the Japanese market.

- Yakuza groups acquire most of their heroin and methamphetamine from Chinese criminal groups in Taiwan and Hong Kong and may have established relationships with South American trafficking organizations for obtaining cocaine.
- China, Taiwan, and Russia are major sources of firearms for the yakuza; Japanese police officials have estimated that 90 percent of the illegal weapons seized each year come from overseas because of Japan's strict gun control laws.
- The yakuza also rely on their international connections for illegal aliens to work in the prostitution entertainment, and construction enterprises they control in Japan. The Yamaguchi-Gumi group, which includes 900 affiliated gangs throughout Japan, runs extensive prostitution rings that prey on women from Latin America, Russia, and Southeast Asia.
- Some of the Chinese migrants smuggled into Japan continue on to the United States, but there is only fragmentary evidence indicating that yakuza groups are directly involved in smuggling illegal aliens into this country.

Although most yakuza criminal relationships overseas are used to facilitate their own criminal activities, some yakuza families are establishing more longterm alliances with other international crime organizations. The Russian connection appears to be particularly important to yakuza groups; in 1992 the Japanese press reported that the head of the Yamaguchi-Gumi

North Korea's Role in International Drug Trafficking

A large share of the methamphetamine consumed in Japan comes from North Korva, according to media reports; more than 40 percent of the methamphetamine seized in Japan in 1999 came from North Korea. There have been regular reports from many official and unofficial sources that impoverished North Korea has engaged in drug trafficking—mostly to Japan, Russia, and China—as a criminal state enterprise to raise badly needed revenue. Over the years, customs and police officials of many countries have apprehended North Korean persons employed as diplomats or in quasi-official capacities at North Korean state trading companies trying to smuggle drugs produced elsewhere.

had announced his intention to establish working relationships with the Russian mafia. Russia has become a major source of firearms and prostitutes, and a growing source of drugs, for the Japanese yakuza. The establishment of regular flights between major Japanese and Russian cities and relaxed travel restrictions are likely to facilitate long-term ties between Russian and Japanese crime groups.

Yakuza Threat to the United States

One of the most significant threats posed by Japanese organized crime groups is their investment in legitimate businesses in foreign countries to launder proceeds from their criminal operations in Japan. The yakuza reportedly have invested heavily in US and Canadian real estate, ranging from golf courses to hotels. By playing the stock market, yakuza groups have also laundered criminal proceeds through US financial institutions, according to US law enforcement.

- Japanese criminal activity in the United States has primarily involved fraud and money-laundering activity.
- The Inagawa-Kai yakuza crime group, which is involved in drug and arms trafficking, extortion, investment frauds, and money laundering, has invested beavily in Hawaii and the states on the west coast of the United States.

Africa

Porous borders, ample routes for amuggling drugs, weapons, explosives, and other contraband, and corrupbible police and security forces make Sub-Saharan Africa an inviting operational environment for international criminals, drug traffickers, and terrorists. Major Sub-Saharan cities with extensive commercial, financial, and sea and air transportation links to Europe, the Middle East, and Asia are hubs for international criminal activity, particularly by Nigerian criminal syndicates. These include Nairobi and Mombasa in Kenya, Addis Ababa in Ethiopia, Abidjan in Cote d'Ivoire, Johannesburg in South Africa, and Lagos in Nigeria.

Nigeria

Nigeria is at the center of international criminal activity coming from Africa. Powerful and sophisticated criminal syndicates based in Nigeria have extensive networks that reach into the Western Hemisphere, Europe, Russia and the NIS, Southeast and Southwest Asia, Australia, and Africa. With Nigeria an historical trading crossroads both in Africa and along maritime routes between East and West, the international criminal operations of Nigerian syndicates are the legacy of a history of moving capital and commodities on a global scale.

Nigerian criminal syndicates centered in Lagos, many of which have global networks, operate with virtual impunity in an environment of pervasive corruption. Decades of mostly military rule in Nigeria have exacerbated the problem, ruining the Nigerian economy and nearly bankrupting the Nigerian Government. Moreover, decades of gross economic mismanagement, with which the newly elected civilian government has just begun to grapple, have left not only private citizens but also government and law enforcement officials and junior and noncommissioned military officers with great incentive to engage in criminal activity to make ends meet. Under the recent military regime, many of Nigeria's political and military leaders, government bureaucrats, and business elites routinely accepted and demanded bribes or kickbacks in

return for facilitating profitable business activity whether in the lucrative oil sector, competitive procurement contracts, or the drug trade.

Corruption and resource constraints have made meaningful law enforcement investigations and prosecutions against the crime barons very difficult in Nigeria. Corruption extends to all levels of the military, which has dominated politics in Nigeria for most years since independence. Likewise, civilian politicians and bureaucrats have engaged in massive corruption, whether during periods of civilian or military rule. Nigerian sea and airports are file with corruption, and borders are porous to criminals, terrorists, and illegal migrants. The decades-long history of corruption and mismanaged exchange rates has also benefited the money-laundering activities of Nigerian criminal syndicates.

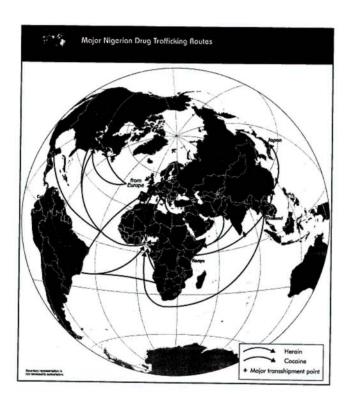
Past Nigerian regimes have typically tried to cast the drug trafficking and financial frauds committed by Nigerian criminal syndicates as victimless crimes that are driven by demand in Western countries. Anticorruption campaigns mounted by military and civilian governments alike have yet to alter the culture of corruption in Nigeria. Nevertheless, some Nigerian elites, including in the military, have come to recognize that pervasive crime and corruption in Nigeria have crippled the economy, contributed to social and political tensions, and undermined relations with major historical trading partners, including the United States and West European countries. Widespread fraud has caused Nigeria to lose billions of dollars in business and foreign investment, according to press reporting. These factors have caused many Nigerian elites to advocate a crack down on corrupt officials and criminal activity, and the new civilian government seems much more inclined to take up this challenge.

Nigeria's President Obasanjo, elected in the aftermath of a highly corrupt military regime, has pledged institutional reforms to cut down on pervasive corruption and to crack down on criminal activity, particularly drug trafficking. The country's history of widespread corruption, however, and the influence of powerful crime barons make effective follow-through on these promises highly problematic.

South Africa

As a major locus of maritime trade and air traffic between Asia, Europe, and the Western Hemisphere, South Africa is emerging as a significant hub of international criminal activity. The lifting of international trade sanctions with the end of apartheid has made South Africa readily accessible to international criminals whose operations take place within the framework of legitimate commercial business activities. South Africa's modern airports and harbors-including container ports at Durban, Cape Town, Port Elizabeth, and East London-are attractive to criminals smuggling parcotics and other contraband. South Africa's well-developed business connections to the West and political connections to some states of concern can be used by criminals to broker ifficit transactions involving arms, controlled technologies, or strategic commodities. For criminal organizations, South Africa also has the advantage of a modern financial system linked to financial markets worldwide, which facilitates money laundering. And, as happened in Russia, criminal organizations recruit professionals with skills well-suited to competing in the modern business environment who were pushed aside or sidelined by the political and economic changes taking place in South Africa.

With the increase in international travel and business since the apartheid government turned over power in 1994, the scope of organized crime in South Africa has evolved from generally small-scale operations centered in localities to nationwide syndicates. South African police officials have identified almost 200 organized crime groups operating throughout the country, with at least 32 having international connections, according to press reports in 1998. Almost half of the 200 groups were reported to be primarily involved in drug trafficking, and approximately 60 groups were associated with financial crimes. Foreign organized crime groups, primarily Nigerian, Russian, and Chinese swindcates, have established bases of



operations in South Africa since the mid-1990s for a variety of illegal activity, including drug trafficking, and other contraband smuggling, poaching and trafficking in endangered species, money laundering, and financial crimes.

 The South African police estimated in 1998 that more than 30 Asian, Italian, Nigerian, and Russian crime groups operating in the country were responsible for direct and indirect losses of government revenue totaling more than \$3 billion annually.

The international drug trade has become a particularly serious problem for South Africa. Nigerian traffickers are finding South Africa air and seaports to be attractive gateways for transshipping both cocaine and heroin into the West European market. South Africa's growing role in the international drug trade has increased its domestic addiction problem, especially for cocaine, which Nigerian traffickers have made widely available at low prices.

South African authorities are most alarmed by the presence and activities of Nigerian, Indian, and Russian criminal organizations. They are becoming concerned by growing numbers of Chinese triad criminal groups operating in South Africa. Nigerian criminal groups have established cells in expatriate communities in South Africa's major commercial centers, while Indian criminal organizations operate within the country's substantial South Asian population. Russian criminals have exploited legitimate business opportunities in South Africa to launder money and reportedly engage in money laundering, arms smuggling, automobile theft rings, and illicit strategic commodities transactions, including in gold and other minerals.

The dramatic increase in criminal activity in South Africa initially caught the government unprepared. Violent crime and frug abuse have grown substantially since the early 1990s. In late 1997, South African police estimated that there were between 5 and 8 million illegal firearms in the country. Efforts to confront organized crime are undermined by widespread corruption in the police and the lack of tough laws. This environment has contributed to the rise of ethnic-based vigilante gangs, particularly among the Muslim minority, that have taken the law into their own hands,

Alarmed by these developments, the South African Government has begun taking measures to improve its anticrime legislation and enforcement capabilities. In 1998, South Africa passed the Prevention of Organized Crime Act, which is similar to the US racketeer-influenced corrupt organization (RICO) statute, and which also contains anti-money laundering provisions.

East Africa

Having a long tradition of contraband smuggling, the countries along Africa's Indian Ocean coast are emerging as significant transit points for international drug traffickers, particularly in the Southwest Asian heroin trade. The large volume of cargo handled by major East African seaports in Mombasa, Kenya, and Dar es Salaam. Tanzania, probably hides substantial amounts of contraband trade, including drugs, coming from the Middle East, Pakistan, India, and Southeast Asia. In addition, Nairobi and Addis Ababa are major international air hubs in the region.

 An increasing amount of Southwest Asian heroin is appearing in Kenya, some reportedly en route to Chicago and New York.

Trade and customs agreements among the East African countries are probably widely exploited by international criminals and traffickers, including to move drugs and contraband into southern Africa. This route is used by South Asian criminal organizations smuggling methaqualone, also known as mandrax, produced primarily in India to the lucrative South African market. The terrorists who bombed the US Embassies in Kenya and Tanzania in 1998 took advantage of lax border controls in the region and immigration procedures to move materials and personnel into place.

Sudan remains a safehaven for terrorist groups.

As countries along the traditional routes used for trafficking Southwest Asian hashish and beroin have given more emphasis to drug interdiction, East Africa has become more attractive as a transshipment point not only because of its international transportation and commercial connections to the rest of the world but also because of lax law enforcement capabilities. Proccupied with regional crises and substantial domestic problems, including high local crime rates, East African governments so far have not given priority to targeting international criminal activity, and they lack the resources to do so effectively. In addition, international criminals and drug traffickers routinely bribe customs and law officials to ignore contraband trade.

 Allegations of official complicity in drug trafficking through Kenya have increased in the last year, given impetus by a multi-ton seizure of hashish in Mombasa in January 2000. Members of parliament and high-ranking police and administrative officials have been linked to facilitating or protecting that shipment.

Nigerian Criminal Enterprises

Worldwide, there are hundreds of Nigerian criminal cells located primarily in major metropolitan centers in North America, Europe, and Asia. Recent estimates suggest that more than 500 Nigerian crime cells are operating in at least 80 countries. Nigerian criminals take advantage of large West African ethnic communities in these cities to establish the infrastructure needed to support a wide range of criminal activityforemost among them drug trafficking and sophisticated schemes to defraud individuals, businesses, and governments-which reap billions of dollars in illicit proceeds. Nigerian crime groups also facilitate illegal immigration of Nigerian nationals to metropolitan areas around the world, whom they then use for filling high-risk, low-level roles in drug trafficking, and are involved in trafficking women and children to Europe, especially Italy. The United States and Britain are the primary targets of Nigerian criminal activity, with Nigerian crime cells elsewhere in the world purchasing drugs or providing financial and logistical support.

 Between 25 and 30 percent of the heroin seized at US international airports in recent years was taken from couriers employed by Nigerian trafficking groups, according to US Customs data. While a large number of Nigerian criminal groups operating overseas appear to be small and autonomous, many others belong to large criminal syndicates based in Nigeria. The smaller groups frequently pool resources and are able to tap into highly fluid networks in countries around the world to facilitate their criminal operations. Many Nigerian crime groups in countries around the world appear to be compartmented cells of larger syndicates controlled by crime barons based primarily in Lagos. The barons, some of whom have substantial economic and political clout in Nigeria, oversee the day-to-day operations of a network of crime cells deployed worldwide to undertake or support a wide range of criminal activities.

Drug Trafficking

Nigerian criminal syndicates are among the world's most active traffickers in Asian heroin-particularly to the United States-and are increasingly trafficking South American cocaine to various regions in Africa and throughout Europe. Producing no heroin of their own. Nigerian traffickers have well-established networks in Southeast and Southwest Asian countries to acquire the drug. The steady and virtually uninterrupted flow of Nigerian-controlled heroin from these source regions is facilitated by criminal cells in transit countries along the way. Nigerian traffickers typically smuggle only small quantities of drugs, using both express mail services and thousands of individual couriers in an effort to overwhelm market country customs and law enforcement capabilities and to lessen the cost of any seizures. They tend to avoid sending drug couriers on direct flights from drug-producing and key transit countries to market countries, relying instead on a widely diverse number of routes transiting airports throughout Asia, Africa, and Latin Amer-

 Using techniques and concealment methods similar to those used to smuggle heroin from Asia, Nigerian criminal syndicates dominate transatlantic cocaine shipments between Brazil and Africa, from where the drug is transshipped to markets in South Africa and Europe. In planning their drug courier runs, Nigerian traffickers make careful study of customs and security procedures in producer, transit, and market country air and sea ports. They readily adapt to international law enforcement measures against them. Nigerian traffickers, for example, are now recruiting "low profile" couriers who are less likely to draw the attention of international customs agents. These include Caucasians, women (often with children), and the elderly. To avoid scrutiny at US international airports, Nigerian traffickers sometimes deliver drugs to Canada or Mexico for overland transshipment into the United States.

Financial Fraud Schemes

In addition to their significant role in parcotics smuggling, Nigerian criminal syndicates are involved in a wide variety of financial fraud schemes that target private citizens as well as businesses, particularly in the United States and the United Kingdom. The most notorious of these are advance fee scams, in which thousands of unsolicited letters and faxes based on fraudulent representation are sent by Nigerian criminals to businessmen worldwide with the promise of great profits at the cost of upfront cash investment. The letters and faxes set forth simple investment schemes, promises of "easy money," elaborate assurances, and extraordinarily low risk. They provide detailed instructions for establishing linked bank accounts and exchange of authorization letters and account numbers to give the appearance of legitimacy, then require various transaction fees before any moneys can be released. Victims of Nigerian fraud schemes may be strung along for months or years paying transactions fees and taxes before realizing they are being conned.

- In 1999, US victims reported several hundred million dollars of losses to Nigerian advance fee frauds, according to US law enforcement. These figures do not include losses to victims from outside the United States. In addition, many epole do not report being victimized by advance fee fraud schemes because of fear or embarrassment.
- During one six-week period in 1998, US postal authorities destroyed some 700,000 advance fee letters that had arrived in New York's JFK International Airport.

APPROVED FOR RELEASE DATE: JAN 2001 Nigerian criminal cells worldwide also specialize in sophisticated schemes targeting banks and financial institutions through credit card and check fraud, student loan and mortgage frauds; insurance companies through fraudulent claims for automobile accidents, personal injuries, and life insurance; and government entitlement programs through false or appropriated identifications and theft from legitimate recipients. Illicit funds raised through financial fraud schemes are often used to capitalize narcotics trafficking. The penetration of government bureaucracies in many countries has enabled local Nigerian cells to defraud government entitlement programs.

South America

As the exclusive source of cocaine for the world market, South America is a primary locus of the international drug trade. Colombian traffickers are responsible for producing most of the world supply of finished cocaine, and they have established drug-trafficking networks throughout the Western Hemisphere. Analysis of cocaine flows data from US detection and monitoring assets and data on cocaine use elsewhere in the world show that most of the cocaine produced in Colombia is for the US market. Colombia, Venezuela, and Ecuador are the primary staging areas for drug exports destined for the United States.

In the last decade, however, international criminal activities linked to South America have expanded beyond the drug trade and become more multifaceted. The continent's increased commercial and transportation links to Europe and Africa, as well as to the Carbibean basin and the United States, have attracted an increased presence of foreign criminal organizations. Greater regional economic integration has helped South America emerge as a significant source of counterfeit products for the international market. Money launderers are exploiting the region's weak enforcement against illicit transactions to move and shelter criminal proceeds.

The power and influence of criminal organizations have eroded good governance, diverted attention and resources away from more pressing political and security problems, and skewed the economies of many South American countries. Throughout the region, the activities of local criminal mafias have become a significant political, as well as law enforcement, concern. Crime groups in many countries have suborned local police officers and other public officials to safeguard their illegal activities.

Colombia

The drug trade in Colombia has helped fuel decades of violence, corruption, political strife, and, particularly in recent years, insurgency. Colombian drug profits since the 1970s have bought power and influence at the highest levels of the government, judiciary, and financial institutions. Government leaders have faced daunting obstacles, including bribes, threats, violence, and other tactics, as they to control drug-trafficking operations. The level of violence and narco-terrorism reached its apex in the late 1980s and early 1990s when countless police were killed by traffickers, a major presidential candidate was assassinated, the headquarters of Colombia's lead investigative agency was destroyed in a high-casualty bombing, and an airliner was destroyed in flight. In 1994, trafficker financial support may have been influential in the victory of President Samper in a close election. Bogota's antidrug efforts since the mid-1990s-including arrests of key traffickers, increased interdiction, and recent extradition of three traffickers to face drug-trafficking charges in the United States-have reduced much of the overt influence exercised by powerful trafficking organizations, but Colombian traffickers have adapted to stay atop the worldwide cocaine trade.

- The dramatic increase in coca cultivation in Colombia—from less than 20 percent of the Andean total in 1994 to 67 percent in 1999—is the primary catalyst of the current crisis.
- The United States is committed to substantial support for Plan Colombia, Bogota's response to the crisis developed in close collaboration with Washington. Central to Plan Colombia's success will be crippling the drug trade by substantially reducing coca cultivation and the processing and movement of cocaine and heroin within three years.

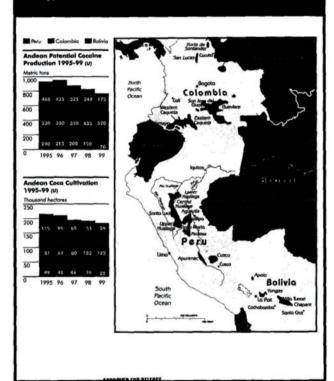
Of particular significance in Colombia's current crisis, surging drug production is providing substantial resources to insurgent and paramilitary groups that threaten the country's stability. In more than half of Colombia's national territory, the FARC and ELN rebel groups or the paramilitaries have free rein. Promoting and protecting coca cultivation in the areas it controls, the FARC has emerged as a major player in the drug trade throughout Colombia, particularly in the south where cultivation increases have been the greatest. The substantial revenues raised by the FARC through its involvement in the drug trade have increased the ability of the insurgents to operate freely throughout the country and to finance growing numbers of armed combatants.

- US Government analysts estimate that the FARC could potentially earn nearly half of its total revenues from taxing the drug trade. Other illicit activities, which include kidnappings, robberies, and other crimes, account for most of the rest.
- Meanwhile, paramilitary involvement in drug trafficking is also increasing. The leader of the most notorious paramilitary group stated publicly that 70 percent of his budget comes from the drug trade.

Along with guertilla attacks against economic targets, the drug trade has been a major factor in Colombia's economic difficulties. The black-market peso exchange used extensively by Colombian traffickers, through which drug proceeds in the United States are exchanged for trade goods that are smuggled into Colombia, has caused the contraband import industry to capture more than 25 percent of the country's retail market. Contraband trade goods financed largely by cocaine profits entering the Colombian marketplace were estimated to be as high as \$1.7 billion in 1999 was about \$12 billion, according to the former Colombian trade minister.

 Colombia's imports from Panama, whose robust financial and commercial sectors make it an outlet in the black-market peso exchange, are now dominated

Andean Coco Cultivation, 1999



DATE JAN 2001

by contraband. The Colombian comptroller's office reports that of \$1.3 billion worth of reexport goods entering Colombia from Panama's Colon Free Zone in 1997, only \$170 million was recorded as legal commerce.

 Colombian money transmitters have adapted to disruptions caused by successful enforcement operations—such as the 1998 Operation Casablanca, which targeted the Mexican financial system—and to US regulatory efforts, such as the Geographic Targeting Order in New York, to continue laundering drug proceeds through the black-market peso exchange.

Colombia is also the world leader in the production of counterfeit US currency. Ongoing investigations in Colombia indicate that drug trafficking and counterfeiting are linked; the same courier networks are often used for trafficking drugs and counterfeit US dollars. Many of the crime groups involved in producing and trafficking counterfeit currency originated from areas controlled by the FARC and ELN.

 Since 1986, some \$187 million in counterfeit US currency seized or passed in the United States and abroad was manufactured in Colombia.

The Andes

Along with Colombia, the other Andean countries are integral to the South American drug trade. Peru and Bolivia are major sources of coca for the cocaine trade; Venezuela is a major transshipment avenue for drug shipments destined for US and European markets through the Caribbean; and Ecuador's harbors and seaports have become more important as Colombian traffickers make greater use of eastern Pacific maritime routes to move cocaine to Mexico and on to the United States. Bolivia and Peru in recent years have had success in attacking the large coca economies in their countries through alternative development, voluntary eradication, and forcible eradication of cocacrops. Although both countries have achieved substantial reductions in their coca crop-more than half in both countries between 1995 and 1999, according to US Government estimates—their coca constituencies remain strong. In Bolivia, powerful unions supporting

their coca growing constituencies continue to stage protests and blockades to impede the government's eradication efforts. In Peru, there are indications that a rebound in coca leaf prices is causing some farmers to return to coca cultivation.

 Ecuador and Venezuela are most vulnerable to occa cultivation spreading to their countries if the Colombian Government is successful in meeting its goal of substantially reducing drug crops and crippling the drug trade. Such a development would also increase the incentive for traffickers and farmers in Peru and Bolivia to grow more occa.

The role of foreign crime groups has been most pronounced in Bolivia, whose reputation as one of the world's most corrupt countries is attractive to international criminals. In recent years, Bolivia has been rocked by a corruption scandal involving ties that a Sicilian Mafia crime group has to high-level military, police, and political leaders. Pervasive corruption has also contributed to Bolivia being a major staging area for thousands of US-bound migrants from China and the Middle East.

Brazil and the Southern Cone

Expanding trade relations within the region and between South America and the rest of the world have helped make Brazil and the Southern Cone countries major venues for international contraband smuggling and economic crimes. Modern manufacturing capabilities in several South American countries have opened the door to illegal duplication of CDs, videos, and cassettes; illegal production of these products is centered in Brazil and Argentina, whose governments have toughened their IPR laws. Growing consumerism and middle class prosperity in the largest South American countries has made them an important market for drugs, pirated or counterfeit products, and other illicit contraband.

 Patent and trademark infringements in Argentina and Brazil cost US firms \$500 million in lost sales annually, according to a 1998 estimate by the International Intellectual Property Alliance.

Evolution of the Colombian Drug Trade

Colombia's drug-trafficking organizations are the most powerful and influential in South America. Prior to the incarceration of its top leaders in 1995 and 1996, Colombia's Cali drug mafia was believed by several international crime experts to be the world's most profitable criminal organization. Although the setbacks suffered by Cali traffickers have ended their dominance. Colombian traffickers not only continue to meet most of the world's cocaine demand, but have become the largest supplier of heroin available in the United States. Nevertheless, the disruptions caused to Colombian trafficking operations have allowed rival groups in Peru and Bolivia to increase their share of the international cocaine market-primarily in Europe and South America-by establishing direct relationships with foreign criminal organizations.

Despite the dismantling of the Cali cartel in the mid-1990s, the continuing shift in coca cultivation from Peru and Bolivia to Colombia that began then has increased the central role that Colombia plays in the Andean cocaine trade. Reinforced by substantially greater coca production in Colombia, Colombian traffickers continue to process most of the world's finished cocaine. Smaller, less powerful trafficking groups have emerged since the powerful Cali drug lords were imprisoned. While becoming less dependent on Peru and Bolivia for supplies of cocaine base, Colombian traffickers have greater expertise, more capital, and better overseas networks than emerging rivals from Peru and Bolivia. This new generation of Colombian trafficking groups maintains lower profiles, focuses on limited aspects of the drug trade, and forms more ad hoc alliances that make them more difficult law enforcement targets. In addition, Colombian traffickers have adjusted their routes and methods for moving cocaine.

International crime groups from outside the Western Hemisphere involved in drug trafficking, particularly Italian, Russian, and Nigerian syndicates, have increased their presence in Brazil, Argentina, and Paraguay to take advantage of these countries' welldeveloped transportation and commercial connections to Europe and Africa. Asian criminal groups appear to be involved in a network of smuggling and counterfeiting enterprises in the "ir-border" region of Brazil, Paraguay, and Argentina. Some foreign criminal organizations have also established a foothold in South America's money laundering, gambling, racketeering, atien smuggling and trafficking in women, and auto theft crime sectors—although local crime groups dominate most criminal enterprises in the region. A 1996 UN study estimated that \$20 billion is laundered through Brazil annually from drug trafficking and coutraband trade.

The Southern Cone countries have been hard pressed to cope with rising crime rates and criminal violence. Criminality is most severe in Brazil, where the illegal import of firearms, used frequently to protect turf and resolve disputes with rival crime gangs, and rising street crime, kidnappings for profit, and drug addiction have exacerbated social tensions. Allegations of criminal corruption have contributed to political scandals or crises in several countries, including Brazil, Argentina, and Paraguay.

The Caribbean

The Caribbean has long been a major transit route for cocaine, marijuana, and more recently smaller quantities of heroin moving from South America to the United States and Europe. It is also an avenue for smuggling illegal migrants and other contraband, including arms. The Caribbean's vast stretches of open water and thousands of islands and eays—on muercous for law enforcement to effectively patrol—afford drug traffickers and other smugglers many and varying transshipment routes. The Bahamas alone has some 700 islands and more than 2,000 cays.

 About one-third of the cocaine entering the United States transits the Caribbean, according to US Government estimates.



 Jamaica is the largest exporter of marijuana in the Caribbean and has well-established networks of crime gangs with ties to both Colombia and the United States.

Puerto Rico is a primary target of drug-trafficking flows in the Caribbean because of its central location astride the three major trans-Caribbean smuggling routes—directly from South America, through the Hispaniola countries of Haiti and the Dominican Republic, and through the Lesser Antilles island chain—and its attractiveness as a point of entry into the United States. Poerto Rico is a major commercial transit center in the Caribbean, with more than 14 million tons of cargo handled in San Juan alone each year. Once drug shipments or any contraband have been smuggled into Puerto Rico, they have entered the United States and can be moved to the mainland by commercial ships and planes generally not subject to US Customs inspections.

 Although Colombian traffickers are the prominent driving force in moving drugs through the Caribbean, Dominican trafficking groups dominate the transportation of cocaine and heroin from Puerto Rico to the US mainland. Their ties to Colombian traffickers, direct connections to the Dominican Republic—the primary staging area for drug shirt penets into Puerto Rico—and associations with Dominican criminal cells in major US eastern seaboard markets make them uniquely positioned to perform this role.

Drug traffickers and other international criminals also use offshore financial service centers in the Caribbean to launder their proceeds. Caribbean-based offshore and onshore banks, trust companies, international business corporations, casinos, and Internet gaming establishments are used by drug traffickers and Russian and Italian organized crime groups to launder illicitly derived funds. Many Caribbean financial centers, which were once characterized by strictly enforced bank secrecy legislation, have passed strong legislation that criminalizes money laundering related to drug trafficking and other crimes. Nonetheless, Panama and four Caribbean countries account for

one-third of the 15 countries and territories listed by the FATF as non-cooperating in combating money laundering.

International criminal activity in the Caribbean has inculcated an environment of widespread corruption, and most Caribbean island nations have weak law enforcement capabilities. Because Caribbean countries have economies reliant on financial services or tourism and gambling, they are particularly vulnerable to high-level criminal influence. Faced with few economic alternatives to these industries and the overwhelming amounts of illicit money that typically help to sustain them, few Caribbean islands have the resources or legislative framework to fight money laundering through Internet gaming establishments and effectively control economic citizenship programs. Powerful local criminals also rely on bribes and strong-arm tactics to supplement their economic clout.

Central America

The Central American isthmus is a major corridor to Mexico for the movement of US-bound illegal aliens and a significant avenue for drug shipments. It is also an avenue for arms shipments of weapons stocks from previous conflicts in Guatemala, El Salvador, and Nicaragua to Colombia. Alien smugglers and drug traffickers take particular advantage of the all-weather Pan-American Highway that runs the length of the isthmus from Panama into Mexico, bypasses virtually all of the region's major international airports, and is within 80 kilometers of most of Central America's major seaports on the Pacific Coast. To improve their odds of success, smugglers often fan out from the highway when approaching border points and cross in remote locations where inspection is more lax or nonexistent. Airlines operating in Central America have extensive routes to South America, offering attractive options for drug traffickers and alien smugglers alike. The many miles of unpatrolled Caribbean coastline in Central America, as well as several commercial seaports, have long been integral to maritime drug smuggling into the region. Guatemala is the primary staging

Cuba: Emerging Criminal Hub in the Western Hemisphere?

Economic and, to a lesser extent, political change in Cuba may make the island a major hub for criminal activity in the near future. As the Cuban economy becomes more liberalized and tourism increases, international organized crime groups would probably view Cuba as an attractive location for criminal activities, particularly if the Communist regime collapses and restrictions on travel are lifted. There are many favorable conditions in Cuba that could facilitate the penetration and growth of organized crime.

Cuba's geographic position astride Caribbean sea lanes between South America and the United States and its close proximity to US shores make it ideally situated as a potential hub for contraband smuggling. Its seaports already handle a significant volume of commercial maritime trade with South America, Europe, and Africa.

 Drug traffickers in the past have flown through Cuban airspace to make airthrops to Florida and The Bahamas. In 1998, Colombian authorities seized a 7-metric-ton shipment of cocaine bound for Spain via Cuba, indicating the possibility that Colombian drug traffickers have been using Cuba as a transshipment hub.

area for moving both drugs and illegal migrants into Mexico, from where they are smuggled across the US border.

Panama's position as a crossroads between the Atlanica and Pacific Oceans and between North and South America, and its modern and vibrant international trade and financial sectors, makes it one of the most attractive sectors for criminal activity in the Western Hemisphere. As a major hub of commercial activity, Panama has long been an important transit site for drugs smuggled in commercial marifime cargo and a major offshore center for laundering criminal proceeds. Modern seaports adjacent to the Colon Free Zone and at the Pacific end of the Panama Canal handle large volumes of containerized and bulk cargo and are important terminals for transshipping Colombian occaine in and out of Panama. Trafficker penetration of the shipping industry, corrupt port and Colon Free Zone authorities, and extensive use of front companies facilitate drug shipments. Drug traffickers and other criminals give significant priority to courting politicians and government officials, as well as executives in the financial sector.

As illegal migration from Latin America to the United States has increased, Panama's accessibility from South America has helped make it a key transit point for regional alien smugglers. According to US Government data, some 30,000 northbound migrants including Ecuadorians, Peruvians, Colombians, Dominicans, Chinese, and Indians—transit Panama annually on their way to the United States. Dozens of alien smugglers are entrenched in the country, where they exploit porous borders, corrupt officials, and lax inspections by immigration authorities and airlines.

The huge volume of financial transactions handled by Panamanian banks has made Panama a significant offshore money-laundering center. Panama's dollarbased economy, robust offshore banking and company-formation sector, and extensive use of cash in the loosely regulated Colon Free Zone allow money launderers to conceal the origin of their funds.

 The value of the import/export trade turnover in the Colon Free Zone alone is estimated by trade journals at \$10 billion annually. The amount of money laundered in the Colon Free Zone has been estimated at \$1-4 billion annually, much of it through the blackmarket peso exchange.

Money-laundering investigations in Panama remain hampered by their complexity, the amount of time an resources required, and by inadequate anti-moneylaundering legislation, which requires prosecutors to tie money laundering directly to drug trafficking. Following Panama's inclusion on the multilateral FATF noncooperative list in 2000, the new Panamanian administration has passed new legislation expanding the list of predicate crimes and permitting Panama's financial analysis unit to share information with other countries.

After Mexico, Central America is by far the largest source of illicit migration to the United States. The US Government estimates that some 325,000 US-bound migrants originate from or transit through Central America annually before entering Mexico en route to the US border. This is equivalent to about two-thirds of the 500,000 non-Mexican illegal migrants who enter the United States each year.

- About 225,000 illegal migrants being smuggled through Central America on their way to the United States are native to the region. Most are from Guatemala, Honduras, and El Salvador, which have large immigrant communities in the United States that represent a pull factor by verifying the availability of jobs, providing housing upon US arrival, and sending remittances to family members considering immigration.
- Because alien smuggling networks are able to operate with virtually no constraints in the region, Cental America is also a major gateway into Mexico and on to the United States for illegal aliens from outside the region. The US Government estimates that some 100,000 US-bound migrants from other regions—including 40,000 from South America, 12,000 from China, 6,000 from India, and the remainder from other Asian, African, and Middle Eastern countries—ransit Central America each year. The 12,000 Chinese passing through Central America and Mexico account for about one-third of the total 30,000 to 40,000 illegal Chinese migrants estimated by the US Government to have been smuggled into the United States in 1999.

The Central American countries, along with Mexico, the Dominican Republic, and Colombia, are primary source countries for women and children trafficked throughout Latin America and to Western Europe, especially Spain.

Most US-bound illegal migrants from outside the region arrive in Central America by air, mostly on flights from South America. Several of the region's airlines regularly carry illegal migrants. Smugglers take advantage of corrupt employees, lax controls end to extensive air service offered throughout the hemisphere by these airlines. Many Chinese migrants are brought to Central America by freighters; the US Government estimates that several thousand Chinese arrive by boat directly into the Central American region each year.

Alien smugglers in Central America rely on the Pan-American Highway as the main route for transporting their clients into Mexico. Its ready access to the coast and to international airports helps facilitate the efficient movement of US-bound illegal migrants coming from South America or Asia. Boats are sometimes used by smugglers to bypass part of their overland journey, particularly across the Golfo de Fonseca between Nicaragua and El Salvador and between Guaternala and Mexico.

In the last four years, nearly one-third of the South American cocaine transported to Mexico to be smuggled across the US southwest border transited through Central American countries, according to US Governments estimates. Central America's importance has grown as drug flows to Mexico through the western Caribbean to the Yucatan Peninsula have declined in recent years because of increased maritime interdiction efforts. Panamanian sea and air ports are pivotal entry points for drugs entering Central America, but South American traffickers also deliver cocaine by boat to remote beaches and harbors on both the Pacific and Caribbean coastlines. Colombian traffickers own most of the cocaine transiting Central America, but rely on regional organizations to arrange and coordinate overland transportation of drug shipments to Mexico.

Poorly policed borders and corrupt officials, some at the highest levels of government and law enforcement, are routinely exploited by drug traffickers and alien smugglers operating in Central America. Relatively low pay and standards of living for law enforcement officers and overburdened police and judicial systems allow drug traffickers considerable room for maneuvering. Corruption involving alien smuggling is particularly widespread, because most officials perceive they are committing no crimes against their own country since the migrants are only transiting en route to the United States. Corrupt officials in the Central American countries accept handsome bribes to assist alien smugglers by providing legitimate documentation, actively facilitating the movement of US-bound illegal migrants through airports and border crossings, or turning a blind eye to such activities.

While most Central American governments are in various stages of boosting their antidrug efforts, they are generally reluctant to deal with the problem of alien smuggling through their countries. Instead, press reports show that the region's governments tend to view the flight of poor citizens to the United States as a way to relieve pressure on their economies and provide a source of revenue for families in the form of remittances. Moreover, US-bound migrants from within and outside Central America may be seen as helpful to their economies because they fill hotels, buy food, clothing, and supplies, and use transportation services.

In most of Central America—with the exception of Nicaragua and Honduras, which have poor enforcement records—it is not illegal to aid and abet illegal migrants. Without antismuggling legislation, law enforcement agencies have few tools other than enforcing laws against illegal documents to deal with the problem. Constrained by small budgets and not enough law enforcement personnel, the region's governments give greater priority to committing resources against rising crime rates than to targeting alien smuggling networks.

Central American Allen Smuggling Networks

There are no major organizations or cartels that control or dominate alien smuggling through Central America or any particular country. The 325,000 US-bound migrants that are estimated to move through Central America are handled by several hundred independent smugglers who cooperate in loosely linked networks stretching across the region; a small number have extensive networks throughout Central America. Most smugglers cover a specific territory—one or two countries—from which they pass clients to other smugglers or guides known as "coyotes," rather than accompanying or having control over them for the full trip into the United States.

 The US Government estimates that alien smuggling networks in Central America generate up to \$1 billion in gross annual revenue.

Almost all Central American alien smugglers rely on widespread, lilicit partnerships with agents in the travel industry to move their clients northward. Travel agencies, many of which are owned and operated by the smugglers themselves, arrange tickets and provide cover for groups of aliens moving through the region. Hotels and safehouses serve as rest stops and rendezvous points on each leg of a typical smuggling trip. Bus lines and rental car companies provide transportation. Alien smugglers also depend on corrupt officials to obtain travel documents or to facilitate the movement of US-bound illegal migrants across borders.

Some alien smugglers in Central America specialize in moving US-bound illegal migrants from Asia, especially China and India. They serve largely as regional subcontractors—with associates in Asia, South America, and the United States—that oversee the movement of US-bound illegal aliens through Central America. Unlike most of the other smugglers who organize alien smuggling runs on an ad hoc though frequent basis, these specialists tend to operate pipelines in

APPROVED FOR RELEASE DATE: JAN 2001 which people movements are preplanned and consistent. Careful planning is essential because the must coordinate arrangements with the arrival of boats, from which their clients are often off-loaded offshore rather than in port, and flights carrying illegal migrants.

 A regionwide law enforcement effort against alien smuggling in 2000 resulted in Costa Rica's arrest of Gloria Nino Canales, who headed one of Central America's largest migrant-smuggling networks.

Mexico

Sharing a long 3,300-kilometer border with the United States, Mexico historically has been a hideaway for bandits and a staging area for cross-border smuggling. Terrain features ranging from the easily crossed Rio Grande to expansive stretches of remote, rugged, and inhospitable desert along the US southwest border have long been used by migrants and contraband smugglers to move back and forth across the border illegally. The urban sprawl that straddles both sides of the border in twin cities like San Diego-Tijuana and El Paso-Juarez has complicated the problem. In addition, inadequate law enforcement coverage of remote regions allows criminals to fly small aircraft or land small boats in US territory unnoticed. Multiple jurisdictions on both sides of the border further complicate organized, coherent efforts to control the border.

Criminal activity across the US southwest border has been aided by the increased volume of legitimate commerce, comparatively lower industrial wages that attract US manufacturing firms, and expanded bilateral trade agreements. The substantially increased volume of trade between the United States and Mexico resulting from NAFTA, while greatly benefiting legitimate business interests on both sides of the border, has also generated greater opportunity for traffickers smuggling drugs, as well as illegal migrants and other contraband, across the US southwest border. Extensive legitimate commerce and traffic make the border between the United States and Mexico the busiest in the world.

- The tremendous amount of legitimate commercial traffic that crosses the border on a daily basis makes effective interdiction an even more difficult challenge. Since 1993, when NAFTA went into effect, according to US Customs information, the number of commercial trucks legally crossing the US-Mexican border has increased by more than 70 percent, and the number of railcars entering the United States has increased about 60 percent.
- According to US Customs, 295 million people, 88
 million automobiles, and 4.5 million trucks and railroad cars entered the United States from Mexico
 through 38 official points of entry in 1999. Mexico
 is the United States' second-largest trading partner,
 with more than \$100 billion of legitimate commercial trade crossing the US southwest border each
 year.

Powerful Mexican drug-trafficking organizations exert considerable influence on the Mexican side of the border, where they use bribes and violence in efforts to corrupt or intimidate police officials and private businessmen into allowing them to operate with limited constraint. They take advantage of the tremendous volume of cross-border trade to smuggle cocaine, heroin, marijuana, and methamphetamine into the United States.

- More than half of the cocaine smuggled into the United States comes across the southwest border with Mexico.
- Mexican traffickers have also come to dominate methamphetamine production and distribution in the United States, which had been controlled by outlaw elements in US motorcycle gangs.

Besides drug smuggling, Mexican criminal groups are involved in illegal alien smuggling, product piracy, and cross-border trafficking—from the United States into Mexico—of stolen vehicles, firearms, tobacco, alcohol, and other contraband. Mexico has become a key way station in the pipeline of illegal migrants, including large numbers from Asia, traveling from

South and Central America to the United States, Mexico also has a problem with businesses violating patent and trademark protections. From January to October 1998, Mexican authorities seized 23.4 million pirated goods, up from 12.6 million pirated items seized in all of 1997.

Mexico is the top money-laundering country in Latin America. Mexican drug traffickers reportedly repatriate much of their profits in bulk cash shipments directly from the United States to Mexico and launder funds using money exchange houses along the US-Mexican border, Mexican banks, stocks and commodities markets, and other financial institutions. Laundered funds have been used by Mexican criminal kinspins to invest in Mexico.

- Cross-border currency smuggling continues to be linked to both Mexican and Colombian drug money laundering, according to US law enforcement. There is evidence that dollar-denominated non-negociable monetary instruments are being exported to Mexico from the United States as a way to avoid large bulk movement of paper currency across the border.
- Despite progress in Mexico's national money-laundering control policies and regulations, recent law enforcement initiatives indicate there are continued problems involving Mexican financial institutions.

The power and influence of Mexican criminal organizations are having a significant political and economic impact in Mexico. Law enforcement and press reporting clearly indicates that criminal violence—including between rival drug-trafficking organizations—kidnappings for profit, carjackings, and extortions have increased in recent years, making Mexico's rising crime rate a major political issue. Drug violence has been particularly noxious—from the 1993 killing of the Archbishop in Guadalajara, gunned down in crossfire between rival drug-trafficking groups, to killings of law enforcement officials, to small-scale massacres in vendetas by one drug trafficking or criminal group against another.

 A major concern is the potential threat posed by particularly violent drug traffickers based in Tijuana

Mexican Drug-Trafficking Organizations

The Mexican drug-trafficking organizations that control cocaine movements through Mexico and are major distributors of occaine, heroin, marijuman, and methamphetamine in the United States continue to grow. Powerful Mexican trafficking organizations receive up to half of each Colombian cocaines shipment moving through Mexico as payment for a successful smuggling operation, according to DEA. They also appear to have increased outright purchases of Colombian cocaine and have taken other measures to assert their independence from Colombian traffickers.

The Mexican drug trade is controlled by several powerful trafficking organizations, most notably the Arellano Felix organization and elements of the Carrillo Fuentes organization, which split into factions since the death of drug lord Amado Carrillo Fuentes in 1997. These drug-trafficking organizations control most acquisition and transportation of drugs through Mexico and its trafficking across the US border. The Arellano Felix organization is considered by US law enforcement officials to be the most ruthless and violent drug-trafficking organization in Mexico.

 Mexican drug-trafficking organizations are most likely to take a wait-and-see attitude toward the new reform-minded administration of President Fox.

and Juarez not only to Mexican rivals and law enforcement officers, but also to US enforcement officers operating on the US side of the border.

Widespread corruption associated with the drug trade has challenged the Mexican Government's ability to operate effectively. Corruption has certainly impaired Mexico's ability to target major drug traffickers. In several high-profile cases, senior officials, including the former Mexican drug czar, and police officers have been implicated in drug related corruption.

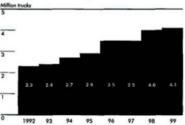


Commercial Trucks Entering the United States Through Southwest Border Crossings With Maxico, 1992-99



The number of commercial trucks entering the United States from Mexico has increased by 71-percent since 1993, when NAFTA went into effect.

Data for fiscal years provided by US Customs Service



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The fundamental change in Mexico's political landscape caused by Vicente Fox's election following 71 years of one-party rule presents an opportunity to attack corruption. Fox has called narcocorruption a 'national cancer,' promised to launch an aggressive campaign against Mexico's drug-trafficking organizations, and proposed changes to federal law enforcement agencies that would restructure the country's antidrug forces. Nonetheless, rooting out corrupt of calls and reversing ingrained patterns of institutional corruption will be difficult and meet significant bureaucratic and political obstacles.

United States

The same factors of size, population diversity, economic strength, modern business and transportation infrastructure, and legal protections that make the United States a lucrative target for international criminals provide an environment that supports and sustains international criminal activity originating in this country and extending well beyond US borders.

- Continental breadth and extensive Atlantic and Pacific coastlines make the United States a rading crossroads to Europe, Asia, and the rest of the world—an advantage exploited by international criminals as well as by legitimate commercial and financial businesses.
- Both foreign and domestic crime groups are able to mask their criminal networks and activities within the broad ethnic diversity of the US population.
- With the world's largest and most diversified economy, and a high standard of living, the United States provides numerous opportunities for lucrative criminal ventures.
- International criminals operating in the United States also take advantage of the world's most modern telecommunications, transportation, and financial systems: extensive legal protection of intellectual and real property rights; and policies and laws that promote the free exchange of ideas and products that have contributed to the US global dominance as an economic and commercial power.

Although the investigative and enforcement capabilities and effectiveness of US law enforcement agencies pose a considerable threat to organized crime, international criminals using the United States as a base of operations gamble that the legal protection of individual liberties and due process in this country and the integrity of the US judicial system will reduce their exposure and risk.

The United States is one of the world's leading sources of contraband luxury goods, firearms, tobacco products, and alcohol smuggled and sold overseas. Both US and foreign crime groups operating in the United States are involved in rackets stealing cars and other high-priced items and illegally shipping them out of the country. International criminal groups profit from evading import and other taxes in countries of destination and selling them below retail price to consumers unwilling to pay exorbitant markups and taxes in the legitimate marketplace. The smuggling of USproduced firearms to other countries is also a significant international problem; the United States is a primary source for criminal groups involved in the international smuggling of firearms because there are fewer restrictions on manufacture and sale of firearms than in most other countries.

The tremendous volume of goods entering and leaving the United States in legitimate trade provides criminal groups with unparalleled opportunities to smuggle contraband through US ports to overseas destinations. In addition to being a point of origin for contraband smuggled overseas, the United States is used by international criminals as a transit country for contraband being shipped from one foreign destination to another. International criminals know that containers arriving from the United States are less likely to arouse suspicion in most destination countries. According to the US Customs Service, more than 14 million standard shipping containers entered the United States by maritime, rail, and truck transport in 1998, most of which

contained products for the US market. Some containers, however, transited in band to other countries; criminals transhipping contraband through US ports seek to hide the true country of origin of contraband products and hope to avoid rigorous US customs scrutiny.

While the United States is the world's leading importer of illicit drugs, it is also a major source of illegal drugs—some of which are smuggled overseas. The United States is one of the world's leading producers of marijuana, crack cocaine, and methamphetamine.

Latin American drug traffickers acquire many of the precursor chemicals they require for producing cocaine and heroin from US sources. They rely on US chemical sources of supply because the distance and transportation required to ship often unstable chemicals are shorter and more reliable than from other producers. Most of these chemicals are produced legally and exported overseas legally to legitimate users. Despite the enactment of sweeping US and international chemical control regulations, however, many chemical shipments are diverted from licit channels for use in the manufacturing of illegal drugs. Drug traffickers establish front companies, fraudulently obtain dealer licenses for chemical transactions, or acquire precursors through corrupt officials in chemical companies.

 In an effort to evade US interdiction, foreign drugtrafficking groups typically import chemicals into neighboring countries in an attempt to disguise their purpose and destination, before diverting and smuggling the chemicals to their drug-producing laboratories.

Despite strict regulations and currency reporting requirements, the United States continues to be attractive to international criminals seeking to launder money because of the complexity, strength, and stability of the US economy and financial system. Some international criminals exploit private or personal banking services to establish accounts for money laundering purposes. The wide variety of nonbank financial institutions that are more difficult for US law enforcement to monitor for illegal activity provide launderers with many different options to dispose of criminal proceeds. These include brokers and dealers of securities, money order vendors, casinos, money transmitters, check cashiers, change bureaus, and the US Postal Service. Many foreign crime groups, particularly Latin American drug-trafficking organizations, use illicit proceeds to purchase consumer goods in the United States, which are then exported to their home countries for sale in the local currency. Moreover, international money launderers operating in the United States are increasingly using professional facilitators such as accountants, noturies, lawyers, real estate agents, and brokers to mask the origin of tainted funds.

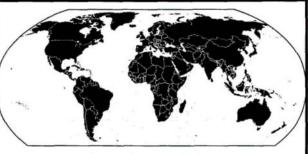
US Crime Groups Abroad

Some US crime groups have established cells and networks in foreign countries, and are engaged in a wide range of criminal activities. In many cases, the US crime groups use their overseas networks to acquire drugs and other illicit contraband or to prey upon US businesses, as they do in the United States. Law enforcement authorities in other countries also report that US crime groups are involved in money taundering, extortion, prostitution, drug trafficking, firearms smuggling, car theft, street crimes, and contract murders.

. The most notorious US crime groups operating overseas are outlaw elements of motorcycle gangs, according to US law enforcement agencies. Some of the approximately 900 motorcycle gangs that have been identified as having outlaw elements by US law enforcement have worldwide chapters and are expanding into other countries at a significant rate. The increasing overseas presence of US motorcycle gangs, together with their criminal members' tendency to associate with other crime groups to further their criminal ends, are causing increasing concern among law enforcement authorities around the world. Law enforcement authorities in countries where motorcycle gangs have established themselves indicate that the motorcycle gangs are extensively involved in organized crime and have



US Motorcycle Clubs: Presence Overseas



Australia Austria Belgium Brazil Canada Denmark Finland France Germany Italy Liechtenstein Netherlands New Zealand Norway Russia South Africa Spain Sweden Switzerland United Kingdom

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particularly bad reputations for violence, property crimes, prostitution and extortion rackets, and trafficking in drugs and firearms.

. According to US law enforcement agencies, the oldest and largest organized crime group in the United States. La Cosa Nostra, has extensive international connections. La Cosa Nostra has been historically linked to the Sicilian Mafia and other Italian criminal organizations, particularly for smuggling heroin and contraband into North America and firearms and cocaine to Canada and Europe. Some La Cosa Nostra members are involved in international racketeering activities, and the crime group controls several offshore casinos and Internet gambling sites. La Cosa Nostra's influence and control over certain labor unions in the United States has a far-reaching impact on some international commerce. Moreover, La Cosa Nostra's extortion and fraud schemes directed against US businesses may extend to their foreign operations. La Cosa Nostra launders illegal proceeds through offshore banks in the Caribbean, as well as through European and South American financial institutions and businesses. Of particular concern is La Cosa Nostra involvement in illegal stock market fraud and stock manipulation, which affects international investments and has the potential to destabilize US financial markets.

Chapter IV

Consequences for US Strategic Interests

Consistent with the priority of protecting the lives, property, and livelihood of US citizens at home and abroad, the United States has a fundamental strategic interest in supporting democracy and free markets around the world. These are critical factors underpinning global political and economic stability. Increasing worldwide criminal activity and the growing power and influence of organized crime groups are significant threats to democratic institutions and free market systems in many countries and regions. Emerging democracies engaged in wide-ranging reforms to meet these objectives, including the former Soviet Union and Eastern Europe, are most vulnerable. Organized crime threatens democratic and free market systems, as well as vital US national interests. by:

- Increasing crime and societal problems. The activities of organized crime groups undermine societal values, lead to increased crime rates, and raise social expenditures. Crime groups seek to establish and enlarge local markets for drugs and other illicit contraband that earn substantial profits, which contributes to police corruption and street crimes. The social consequences of these activities can be severe; they include drug addiction, violence, property and financial fraud crimes, decreased respect for legitimate authorities, and increased medical and social welfare costs.
- Corrupting public officials. Although criminal groups rarely organize politically, they can and do gain considerable power over politicians and government officials through corruption and the economic influence they exercise. Criminal groups cultivate and rely on corrupt political elites, government officials, and law enforcement and security personnel to protect their operations and to provide cover for expanding their activities, often into the legitimate economy. They use their leverage to protect their illicit operations from public scrutiny and law enforcement pressure; to push for legislative and

administrative regulations favorable to their criminal business interests; and to gain insider access and information to government economic strategy and plans that give them an unfair advantage over legitimate business competitors.

- Compromising the integrity of democratic institutions. Corruption of public officials inevitably erodes the integrity of democratic institutions, including legislatures and judiciaries. Criminal organizations attempt to manipulate political and legal systems to their advantage. They use illicit proceeds to help fund the campaigns of preferred candidates or to buy votes in the legislature in efforts to protect their safety, freedom, and criminal operations. Criminal influence in the legal system may short-circuit law enforcement investigations, preempt prosecutions, prevent convictions, or preclude long sentences. Damage to the integrity of democratic political and judicial institutions undermines their credibility and erodes public support for democracy.
- Penetrating the legitimate economy. Through investments in legitimate enterprises, criminal organizations can gain substantial interests in, or even control over, critical sectors of the national economy. Criminally controlled or influenced businesses have ready access to considerable amounts of interest-free capital to invest in productive enterprises, an advantage legitimate businesse and advantage legitimate businesse enterprises at a competitive disadvantage. Criminal groups tend to invest more in high-volume cashflow businesses that provide good cover for money laundering or contraband smuggling. Business

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enterprises influenced or controlled by criminal groups also put them in position to "steal" legitimate government and business revenue. Moreover, companies controlled by organized crime frequently create cost overruns or demand kickbacks in sectors such as public works projects.

- Damaging the credibility of banking and financial institutions. The use of banks and financial institutions to launder money and for other illicit financial transactions undermines their credibility. Poorly capitalized banks established by criminal organizations weaken the banking system and may increase the likelihood of a major domestic financial crisis. A weakened banking system increases the danger of domestic liquidity crises and can magnify the impact of foreign financial shocks on the economy. These developments can undermine confidence in a country's financial system, leading to extensive capital flight and depriving the country of investment resources. If the financial system is closely integrated into global financial markets, the risk of contagion-the crisis spreading to other countriesincreases.
- · Undermining support for democratic and free market reforms. In countries with weak or developing democratic institutions or transitioning economies, like Russia, the NIS, and several in Eastern Europe, the intersection of organized crime with corrupt political elites can erode the public credibility of reforms and prevent democratic and free market systems from being consolidated and institutionalized. The general public feels it has no stake in political and economic reforms when reforms appear to benefit organized crime, unscrupulous businessmen, and corrupt politicians and government officials, rather than aiding citizens. Rising crime and societal problems intensify public disillusionment. Loss of faith in a newly democratic government's ability to cope with the power and influence of criminal networks and corrupt officials may result in stronger political support for antidemocratic hardliners.

some countries to become "safehavens" where criminals can operate with virtual impunity. Criminal groups rely on safehavens as staging or transit areas for moving illicit contraband-particularly drugs. arms, and illegal immigrants-and for laundering, hiding, or investing their illicit proceeds. They also use these countries' financial and commercial sectors to arrange illicit financing of criminal activities and to broker prohibited transactions, including those for regulated and proscribed materials and technologies of interest to states of concern or terrorist groups. Countries that limit extradition, do not recognize the relevance of some US laws, or that have no legal statutes to deal with some criminal activities are often home to criminals seeking to evade justice in the United States and other countries their criminal acts victimize.

· Weak financial regulatory systems, lax enforcement measures, and high-level corruption are key factors that make certain countries particularly attractive to international criminals as safehavens.

In some cases, state-sanctioned criminality and corruption may be so corrosive that the country itself has become a "kleptocracy." Rather than serve the public interest, the top leaders in such countries use the resources of the state solely to enrich themselves and keep themselves and their cronies in power. Ruling their countries as virtually a personal business enterprise, kleptocratic leaders exploit the most profitable areas of the national economy for personal gain, often resulting in losses for the state treasury and sometimes impoverishing the country. Gross corruption aimed principally at enriching the political leadership leads to distorted economic decision making that weakens a sound economy. Kleptocratic governments also set the stage for social and political upheavals.

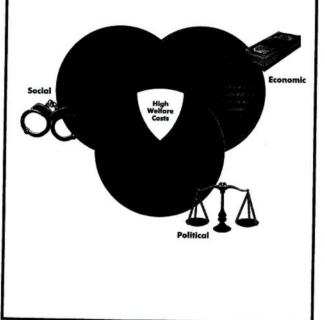
· Nigeria under Abacha, Zaire under Mobuto, Indonesia under Soeharto, and the Philippines under Marcos are examples of kleptocratic states. All of these

The Problem of Criminal Safehavens, Kleptocracies, and Failed States

Increasing power and influence of criminal organizations over political and economic structures may cause



Organized Crime Threat to Society



DATE JAN 2001

leaders used their authority to exploit their countries' economic resources for personal gain and demanded sizable kickbacks as the cost of doing business. They amassed fortunes worth billions of dollars, but also sowed the seeds that led to their downfall.

Unconstrained criminal activity may so corrupt and compromise the integrity of law enforcement and other government institutions that a country becomes a "failed state" incapable of meeting many of the accepted standards and responsibilities of sovereign control over its territory. In failed states, government institutions responsible for law enforcement, maintaining public order, or regulating the financial sector have broken down to such an extent that they are unable to maintain rule of law or to develop sufficient political motivation to act against criminal groups and activities operating in the country. Their governments are unable or unwilling to fulfill international obligations that would help prevent their countries from becoming major bases for global crime. The failure of institutions to fulfill the public responsibilities expected of them and any substantial breakdown of the rule of law may lead to significant economic deterioration and political unrest that threatens both internal and regional stability.

The international scope of the global crime threat places a premium on bilateral and international cooperation to prevent organized crime, drug trafficking, and terrorist groups and other criminal networks from establishing secure bases of operations. Without effective law enforcement throughout the international community, criminals will continue to threaten US interests, as well as those of other democratic and free market countries, simply by conducting their activities from, and through, those jurisdictions where law enforcement is weak. The absence of effective law enforcement or optitical willingness to grapple with the problem in countries that are safehavens or failed states precludes effective counterfurg and law enforcement cooperation with the United States and other countries, stymies US efforts to enhance international measures against money laundering, corrupt business practices, and IPR violations, and complicates broader US political and socurity interests.

Increasingly, however, many governments in countries criminals are exploiting as safehavens are coming to realize the far-reaching consequences of international criminal activity in their countries. In particular, in an increasingly global economy where any one country's economic growth and prosperity are to a significant degree dependent on international trade and commerce, more and more governments recognize that criminal activity can undermine the credibility and competitiveness of their country's financial and commercial sectors, which is bad for business and the economy.

Chapter V

The Future of International Crime

In 10 years, driven by globalization and the erosion of state authority, the international criminal threat to US interests is most likely to be more diversified and impact even more directly on US strategic interests. The extent and magnitude of the problem will depend on the global political and economic conditions prevailing at the time, the extent and effectiveness of measures taken to reduce societal or systemic vulnerabilities, and the degree to which national law enforcement and security institutions around the world develop appropriate cooperative mechanisms enabling them to operate—as international criminals will be able to—outside the parameters of national sovereignty and legal jurisdictions. For examples

- A radical breakdown of the Communist system in China could intensify the influence of Chinese criminal organizations within China's political and economic systems and provide a safehaven for expanding criminal operations abroad.
- Enhancements to protect the security and integrity of electronic money-transfer and financial transactions systems could make it more difficult for criminal organizations to defraud banks, financial institutions, or individuals or to munipulate financial and commodities markets.
- Flexible bilateral and multilateral agreements that allow US law enforcement agencies to pursue criminals and time-sensitive investigative leads in foreign countries with minimal impediments could help prevent criminal organizations from operating across international borders with virtual legal impunity.

Globalization and technological innovation will continue to change the nature of organized crime. While large criminal syndicates—Russian organized crime groups like Solntsevo, Italian criminal groups like the Sicilian Mafia, ethnic Chinese criminal groups including triads, and others—will remain powerful players with worldwide networks, law enforcement agencies probably will also be forced to cope with a very large number of highly skilled criminal enterpreneurs whose activities can have far-reaching interaction release.

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- Individuals or small groups empowered by high-tech computer skills and telecommunications capabilities may be the future wave of international crime. They would not require the infrastructure or protection of large criminal syndicates to mastermind and implement wide-ranging and sophisticated schemes in the commercial or financial arenas to gain substantial illicit revenues. Through electronic theft or computer manipulation of markets, individuals or small crime groups could cause substantial public and private-sector losses, potentially even undermining the integrity of the institutions they target and compromising market stability.
- Meanwhile, for the same reasons, large organized crime syndicates may well be even more self-sufficient by 2010. The trend of greater cooperation among criminal organizations at the end of the 20% century may be replaced by one in which large international crime groups—because they have world-wide networks and employ highly skilled professionals—are able to produce or acquire, move, market, and distribute drugs and other contraband without any reliance on outside criminal brokers or crime groups. Such a development could mean the end of the dominance of Latin American drug-trafficking "cartels" as other criminal groups gain the ability to acquire and traffic cocaine from Latin American on their own.
- The criminal world in 2010 may be populated by large interactive networks of smaller, independent organizations who cooperate on the basis of compurative advantage. Crime groups within these networks would specialize in specific activities, trading or selling expertise as befits their criminal interests or criminal joint ventures.
- Criminal groups are also most likely to take advantage of scientific and manufacturing advances to produce new synthetic drugs or more high-quality counterfeit products—including high-tech components that may find their way into commercial transportation or military programs. Successful

eradication efforts against narcotics crops may spur criminal organizations to exploit scientific pharmaceutical advances to produce synthetic heroin and cocaine for the illicit drug market.

Drug trafficking, alien smuggling, contraband smuggling, the trafficking of women and children, and many other traditional criminal rackets will continue to be a staple of organized crime groups worldwide. By 2010, however, organized crime groups are most likely to be a greater threat with regard to security issues that directly affect US strategic interests.

- Organized crime groups that have access to formidable weapons arsenals may assume a far more significant role in brokering illicit arms transactions for foreign armies, militias, or insurgencies, displacing the brokers and businesses that dominate today's gray arms market. They may also become a viable alternative to independent brokers and front companies by establishing sophisticated acquisition, transportation, and financial networks to facilitate the evasion of US or international sanctions by rogue regimes and terrorist groups.
- So far the threat of organized crime involvement in acquiring and trafficking nuclear, biological, or chemical weapons of mass destruction has been more potential than real. This potential may be realized by the end of the decade if the political and economic climates in countries both possessing and seeking WMD capabilities changed to make engineering such transactions more practical and less risky.

International criminal groups will keep pace with changes in technology and the world economy to enhance their capability in traditional organized crime activities and to move into new criminal business areas. Advances in computer and financial technology will increase the anonymity and speed of commercial and financial transactions, offering criminals more efficient and secure ways to smuggle illicit drugs and contraband, penetrate legitimate businesses, and launder and move money.

 By 2010, international criminal groups are most likely to be particularly proficient at exploiting computer networks upon which all modern government, public, private, and financial services will officed for RELEASE

They also may be able to cause significant disruption to financial systems. Criminal organizations may be capable of financially exploiting or disrupting government, law enforcement, banking, or private-sector computer systems they are able to penetrate, undermining public services and the credbility of government and private institutions.

 Greater regional integration and worldwide interdependence of national economies will make it easier for criminal organizations to operate on an international scale and blend their operations into legitimate economic activity. Improvements in transportation infrastructures and modalities to facilitate international trade will increase the volume, speed, and efficiency of smuggling and commercial transactions by international crime groups.

Many countries are likely to be at risk of organized crime groups gaining significant leverage or even control over political and economic systems. Criminal organizations are likely to penetrate troubled banking and commercial sectors. Unscrupulous politicians and political parties may align themselves with criminal organizations for financial and other support. Once in office, they are likely to have difficulty constraining the activities of organized crime. Organized crime groups themselves may promote their own political agenda as the price of support.

• The world in 2010 may see the emergence of "criminal states" that are not merely safehavens for international criminal activities, but support them as a matter of course. The involvement of "criminal states" in the community of nations could undermine international finance and commerce and preclude effective international cooperation against organized crime. "Criminal states" may also adopt the political agendas of states of concern and terrorist groups, thereby weakening US political, economic, and security interests around the world.

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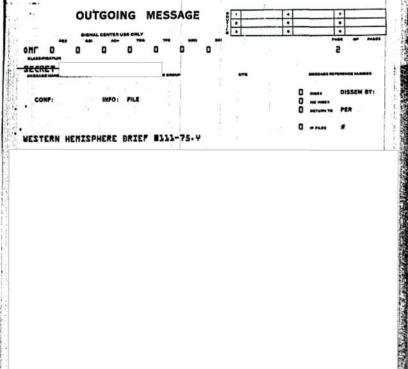
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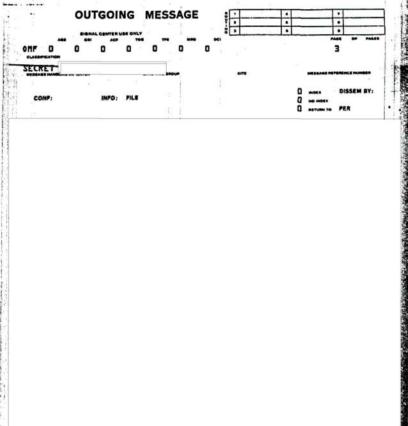
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EXT

OUTGOING MESSAGE

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2. //LATIN AMERICA: MEXICO AND VENEZUELA HAS DECIDED TO PRESS FOR AN EARLY CONFERENCE TO SET UP A LATIN AMERICAN ECONOMIC SYSTEM, A SCHEME THEY DEVISED TO GIVE LATIN AMERICAN AND CARIBBEAN COUNTRIES A GREATER ROLE IN WORLD ECONOMIC AFFAIRS . //Y

//CHILE AND BRAZIL HAD WANTED MORE TIME FOR A SERIOUS TECHNICAL EXAMINATION OF THE CONSTITUTION PROPOSED FOR THE NEW ORGANIZATION. BUT GROUPS OF EXPERTS WILL MEET IN PANAMA ON JULY 26 STO PREPARE FOR A MINISTERIAL CONFERENCE OPENING ON THE BLST. CUBA WILL BE AMONG THE FOUNDING MEMBERS. THE US IS POINTEDLY EXCLUDED. //Y

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ENABLE MEMBERS TO DEAL MORE EFFECTIVELY WITH POWERFUL

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FROM THE US AND OTHER INDUSTRALIZED NATIONS. TO PERSUADE AND
ASSUAGE THE RELUCTANT, THE SPONSORS OF THE PROPOSED NEW
ORGANIZATION HAVE GIVEN REPEATED ASSURANCES THAT THEY DO
NOT INTEND TO USE IT TO PROMOTE AN ADVERSARY RELATIONSHIP
WITH THE US-//Y

//THE MOTIVE, NEVERTHELESS, IS CLEARLY TO IMPROVE THE POLITICAL AND ECONOMIC FIREPOWER THAT LATIN AMERICA AND THE CARIBBEAN CAN BRING TO BEAR IN COUNTERING US POLICIES DEEMED INIMICAL TO THEIR INTERESTS. (SECRET NO FOREIGN DISSEM)

DATE:

UNIT:

